香港交易及結算所有限公司及香港聯合交易所有限公司對本公佈之內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不對因本公佈全部或任何部分內容而產生或因倚賴該等內容而引致之任何損失承擔任何責任。

本公佈不構成在美國或任何下述其他司法管轄區出售證券的要約或招攬購買證券的要約：在該等司法管轄區，上述要約、招攬或出售在根據該司法管轄區的證券法律進行登記或獲得資格前屬違法。在未辦理登記手續或未獲適用的登記規定豁免的情況下，不得在美國發售或出售任何證券。凡在美國公開發售任何證券，均須以刊發章程之方式進行。該章程須載有作出有關發售之公司、其管理層及財務報表之詳盡資料。本公司無意在美國公開發售任何證券。

天虹紡織集團有限公司
TEXHONG TEXTILE GROUP LIMITED

（於開曼群島註冊成立之有限公司）
（股份代號：2678）

建議發行優先票據
及公司與財務資料節錄

本公司建議就擔保優先票據進行國際發售，並將於二零一一年一月五日向於亞洲及歐洲的國際機構投資者，以及於美國向合資格機構買家進行路演。就發售而言，本公司將會向若干機構投資者提供本集團近期公司及財務資料（包括但不限於風險因素、本集團進行的項目概況、管理層就財務狀況及經營業績的討論及分析、關連人士交易及債務資料），該等資料過往未曾公開。該等資料之摘錄隨附於後，並將可在該等資料發放予機構投資者之相若時間，於本公司網頁www.texhong.com瀏覽。建議票據發行之完成受市場狀況及投資者興趣所限。

建議票據之定價（包括本金總額、發售價及利率）將由獨家牽頭經辦人兼獨家賬簿管理人德意志銀行透過建賬釐定。於落實票據條款後，德意志銀行、本公司及附屬公司擔保人將訂立購買協議。

由於於本公佈日期並無就建議票據發行訂立具約束力協議，建議票據發行可能會或可能不會實現。務請投資者及本公司股東於買賣本公司證券前先作審慎考慮。倘簽訂有關建議票據發行的具約束力協議，本公司將就建議票據發行另行刊發公佈。

建議票據發行

本公司建議就擔保優先票據進行國際發售，並將於二零一一年一月五日向於亞洲及歐洲的國際機構投資者，以及於美國向合資格機構買家進行路演。就發售而言，本公司將會向若干機構投資者提供本集團近期公司及財務資料(包括但不限於風險因素、本集團進行的項目概況、管理層就財務狀況及經營業績的討論及分析、關連人士交易及債務資料)，該等資料過往未曾公開。該等資料之摘錄隨附於後，並可在該等資料發放予機構投資者之相若時間，在本公司網頁www.texhong.com瀏覽。建議票據發行之完成受市場狀況及投資者興趣所限。

建議票據之定價(包括本金總額、發售價及利率)將由獨家牽頭經辦人兼獨家賬簿管理人德意志銀行透過建賬釐定。票據之條款及條件尚待確實，且將會包括本集團於中國境外註冊成立的若干附屬公司提供的擔保。於落實票據條款後，德意志銀行、本公司及附屬公司擔保人將訂立購買協議，據此德意志銀行將會成為票據的首次買家。於簽立購買協議後，本公司將就建議票據另行刊發公佈。

建議票據發行將僅由德意志銀行(i)根據證券法第144A條例規定豁免遵守證券法之登記規定於美國向合資格機構買家及(ii)按照證券法S規則於美國境外向非美籍人士提呈發售。概無建議票據將向香港公眾人士提呈發售，亦無建議票據將向本公司任何關連人士配售。

建議票據發行乃用作(i)為本集團部分現有債務再融資，(ii)補充本集團資本開支計劃(包括擴充其生產設施)的資金，及(iii)為其他公司用途籌集資金。

上市

新交所已原則上批准票據上市。票據獲納入新交所並不能視為本公司、票據或附屬公司擔保人優點的指標。本公司並未就票據尋求於香港上市。

一般事項

由於於本公佈日期並無就建議票據發行訂立具約束力協議，建議票據發行可能會或可能不會實現。務請投資者及本公司股東於買賣本公司證券前先作審慎考慮。倘簽訂有關建議票據發行的具約束力協議，本公司將就建議票據發行另行刊發公佈。

釋意

於本公佈內，除文義另有所指外，下列詞彙具有以下涵義：

「董事會」	指	董事會
「本公司」	指	天虹紡織集團有限公司，一間於開曼群島註冊成立之有限公司，其已發行股份於聯交所主板上市
「關連人士」	指	具上市規則所賦予之涵義
「德意志銀行」	指	德意志銀行新加坡分行，為票據發售及銷售的獨家牽頭經辦人及獨家賬簿管理人
「董事」	指	本公司之董事
「本集團」	指	本公司及其不時之附屬公司之統稱
「港元」	指	香港法定貨幣港元
「香港」	指	中國香港特別行政區
「上市規則」	指	聯交所證券上市規則
「票據」	指	將由本公司發行之定息擔保優先票據

「中國」	指	中華人民共和國
「建議票據發行」	指	本公司建議發行票據
「購買協議」	指	建議由本公司、附屬公司擔保人及德意志銀行就建議票據發行訂立之協議
「證券法」	指	一九三三年美國證券法(經修訂)
「新交所」	指	新加坡證券交易所
「股份」	指	本公司股本中每股面值0.10港元之普通股
「股東」	指	股份持有人
「聯交所」	指	香港聯合交易所有限公司
「附屬公司擔保人」	指	擔保支付票據款項的本公司附屬公司

承董事會命
天虹紡織集團有限公司
主席
洪天祝

香港，二零一一年一月四日

於本公佈日期，董事會包括執行董事洪天祝先生、朱永祥先生、龔照先生及湯道平先生，獨立非執行董事為丁良輝先生、朱蘭芬女士及程隆棣教授。

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this Offering Memorandum and, in particular, the risks described below before deciding to invest in the Notes. The following describes some of the significant risks that could affect us and the value of the Notes. Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially and adversely affect our business, financial condition, results of operations and prospects. The market price of the Notes could decline due to any of these risks and you may lose all or part of your investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties including those described under "Forward-Looking Statements" elsewhere in this Offering Memorandum. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this Offering Memorandum.

Risks Relating to our Business and the Industry

Our business is dependent on the supply and cost of raw materials, in particular cotton, and any disruption in the supply or fluctuation in the price of such raw materials could materially and adversely affect our business, results of operations, financial condition and prospects.

Cotton is the most important raw material for our production and accounted for a substantial percentage of our costs of sales. For each of the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, cotton accounted for approximately 31.6%, 39.9%, 43.4% and 45.4%, respectively, of our costs of sales.

The price of cotton and other raw materials fluctuates significantly as a result of changing market conditions, government policies and regulations, climate as well as general economic conditions. For instance, as published by Bloomberg, the average USDA spot price per tonne of US cotton decreased from approximately RMB10,863 per tonne for the year ended December 31, 2007 to approximately RMB10,666 per tonne for the year ended December 31, 2008 and further decreased to approximately RMB9,639 per tonne for the year ended December 31, 2009 but then increased to approximately RMB14,136 per tonne for the ten months ended October 31, 2010. In contrast, the average spot price per tonne of "China 328" grade cotton increased from approximately RMB12,991 per tonne for the year ended December 31, 2007 to approximately RMB13,114 per tonne for the year ended December 31, 2008, then decreased to approximately RMB12,502 per tonne for the year ended December 31, 2009, then increased to approximately RMB17,562 per tonne for the ten months ended October 31, 2010.

Although we have not historically entered into long-term supply agreements with any suppliers, as a result of a recent shortage in worldwide cotton supplies, in October 2010, we entered into a series of advance cotton purchase contracts with one of our major suppliers and certain other international and domestic cotton suppliers to secure our expected cotton supply for the first half of 2011 based on our projected production volume.

There is no certainty as to our supply of cotton, and we cannot guarantee you that supply interruptions or shortages will not occur in the future or that we will be able to continue to enter into advance cotton purchase contracts with cotton suppliers. We may be unable to continue to secure supply sources, including our supply under the advance cotton purchase contracts on reasonable terms, or at all, which could result in our inability to operate our production facilities at full capacity, or at all, thereby resulting in reduced or no production output and sales revenue. Should there be any significant shortage or disruption in cotton supply or material change in the price of cotton or other major raw materials that we require, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Moreover, we may not be able to pass on raw material price increases or significant fluctuations to our customers, which will depend upon market conditions and our relative pricing position compared to our competitors. Any increase in raw material costs without a corresponding increase in selling price would reduce our operating results. There may be periods of time in which we may not be able to fully recover increases in the cost of raw materials due to contractual arrangements or to weaknesses in demand for, or oversupply of, our products. On the other hand, any significant drop in cotton prices could reduce the value of our inventory. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

We operate in a highly competitive industry and intensifying competition among our domestic and foreign competitors may saturate the market, resulting in lower prices and margins and a reduction in our profitability and market share.

The industry in which we operate is characterized by high levels of competition. It may be difficult for us to differentiate our products from our competitors and pass on increased costs to our customers. Competitive factors include price, product quality, reliability of our raw material supply, product performance or specifications, continuity and reliability of supplies to customers and sustaining long-term customer relationships. We face competition from a significant number of companies, including numerous regional producers in the PRC such as those located in Jiangsu Province, which offer similar stretchable core-spun yarn, stretchable grey fabrics products and denim products at lower prices than we do, and other companies which offer an increasing number of new related products in the PRC which could be used as substitutes for our products. Some of these competitors may have greater market presence and/or financial and other resources than us. In addition, margin pressure could arise from, among other factors, limited demand growth and overcapacity in a relevant market, price reductions by competitors, new industry players, industry consolidation, the ability of competitors to capitalize on their economies of scale and create excess product supply, and the access of competitors to new technologies which we do not possess.

Moreover, the business entry barriers to the cotton textile industry are relatively low as cotton yarn, grey fabrics and denim products are traditional and basic textile products which do not require advanced technology to produce and a small amount of production of these products does not require intensive capital investment. We therefore face intense domestic and foreign competition in terms of production and sales. In the overseas market, the cotton textile enterprises located in the central and southern Asian cotton textile producing regions (for example, India and Pakistan) where there are abundant and also cheap supplies of cotton and labor have been very competitive in terms of costs. In addition, as a result of its accession to the WTO, the PRC has gradually reduced its import tariff rate for textile products. The lowering of import tariffs and other import restrictions of textile products may increase competition from overseas competitors and we cannot assure you that overseas competitors in the textile industry will not enter our product markets and compete directly with us. Any intensification of the competition or failure by us to compete successfully with our competitors could have an adverse impact on the demand for, and pricing of, our products, and as a result, could result in a reduction of our market share and have a material adverse effect on our business, results of operations, financial condition and prospects.

Any change in consumer preferences for other textile materials in the future may have a material adverse effect on our business, results of operations, financial condition and prospects and we may lose our competitiveness if we are unable to successfully develop new products or innovative ways to meet changing market demands for products or complete product developments.

Stretchable core-spun yarn and stretchable grey fabrics are the most significant contributors to our revenue and gross profit and together accounted for approximately 73.1%, 71.0%, 66.2% and 65.7% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. There may be changes in fashion trends and consumers may have a change in preference toward other textile materials in the future. Our future success depends upon our ability to address the changes in consumer trends by developing and introducing new and innovative products on a timely basis and in accordance with changing demands. We cannot assure you that the demand for our stretchable core-spun yarn and stretchable grey fabrics products will not decrease or that we will be able to respond rapidly and effectively to any such change in consumer preferences.

Moreover, during the year ended December 31, 2009 and the tens months ended October 31, 2010, we maintained growth in our business partly due to our manufacture and sales of new and high value-added products, such as high-end non-stretchable core-spun yarns and high-end denim yarn. We cannot assure you that we will be able to continue to develop products or complete any product development successfully or that any new products developed will receive market acceptance. If we are unable to respond effectively to any change in consumer preferences by commercializing any new products which command a sustainable gross profit margin, our business, results of operations, financial condition and prospects will be materially and adversely affected.

Further, we cannot assure you that our current or future competitors will not offer products comparable or superior to our products or adapt more quickly than us to evolving industry trends or changing market requirements. If we do not anticipate or keep pace with changes in customers' demands, we may not be able to manufacture our products at competitive prices or our sales may decline as the market demand for our products declines, and our production facilities and products may become obsolete and as a result, our business, results of operations, financial condition and prospects will be materially and adversely affected.

We are dependent on the performance of our customers' industries whose market is the apparel industry, and any significant decline in their market will have a material adverse effect on our business, financial condition, results of operations and prospects.

Our yarn products are mainly sold to fabric traders, fabric mills and fabric weavers, and printing and dyeing factories, whose garments and apparel made from our yarn which are ultimately sold to consumers. If there occurs any significant decline in the apparel industry due to reduced consumer spending or otherwise, the demand for our products would also be affected as demand for our products by our customers would be reduced accordingly, which would have a material and adverse effect on our business, financial condition, results of operations and prospects.

Moreover, the domestic demand for cotton textile products may not continue to exceed supply. If demand drops or the supply exceeds demand, such will have a material and adverse impact on our results of operations and financial condition.

We rely significantly on our sales in Jiangsu and Zhejiang Provinces and our increasing sales to Guangdong Province, and any event negatively affecting these regions could have a material adverse effect on our business, results of operations, financial condition and prospects.

Most of our domestic sales are made in Jiangsu and Zhejiang Provinces. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, our sales to the customers in Jiangsu and Zhejiang Provinces together accounted for approximately 68.5%, 65.7%, 61.6% and 58.6%, respectively, of our total sales. Our sales to customers in Guangdong Province have also generally increased in recent years, accounting for 9.5%, 8.9%, 15.9% and 17.6% of our total sales for the same periods. Although we are building relationships with customers in other regions, we anticipate that our customer base in these regions will continue to generate a substantial portion of our sales in the near future. As such, the economic conditions of these regions, in particular the growth of the local downstream textile industries and the general consumption of our products in these regions, have had and will continue to have a significant impact on our sales and business. Any economic downturn in the Jiangsu, Zhejiang and Guangdong Provinces in general could have a material adverse effect on our business, financial condition, results of operations and prospects.

We could be adversely and materially affected by any change in the import duties on yarns imported into the PRC from Vietnam.

For the ten months ended October 31, 2010, RMB1,034.7 million (US$155.1 million) or 23.6% of our total revenue was generated from sales of yarn we produced from our Vietnam operations for import into the PRC to domestic consumers. Currently no import duties are imposed by the PRC on the import of such yarns from Vietnam under the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation Between ASEAN and China. As most of our sales are to customers in the PRC, should there be a change in policy and import duties are imposed on the import of yarn from Vietnam to the PRC, the cost of our sales will increase and our operations, financial condition, results of operations and prospects will be materially and adversely affected.

We may fail to implement our expansion strategy in Vietnam and are subject to various risks in relation to upgrading our existing facilities in the PRC and constructing new facilities.

We intend to expand our production capacity by investing in new production facilities and ancillary machinery and equipment in Vietnam and upgrade our existing facilities in the PRC. Our growth and future success will be dependent upon, among other factors, the successful completion of our proposed expansion plans and the sufficiency of demand for our products. The upgrade or construction of any of our production facilities may be adversely affected by delays and cost overruns. Factors which may contribute to delays and cost overruns with respect to our expansion or upgrade include increased cost of land acquisition in Vietnam, shortages and price changes of key equipment or materials, increases in the cost of, or inability to secure, financing, risks relating to construction, changes in safety and/or environmental requirements, delay or failure in obtaining necessary government approvals, changes in general economic conditions in the PRC or Vietnam, adverse weather conditions, natural disasters, accidents, unanticipated changes in government policies and other unforeseen circumstances and problems. A significant delay in the completion of these projects or a material increase in the costs of these projects could adversely affect the competitive advantage that we hope to achieve by undertaking such projects and may also divert our resources away from our other business operations.

Moreover, if demand for our products decreases, our expanded capacity may be under-utilized and costs incurred in the expansion may not be recovered at an economical rate or at all. Should we fail to implement our expansion plans or if there is insufficient demand for our expanded production capacity, our business, results of operations, financial position and prospects will be materially and adversely affected.

Cooperation with Invista, Lenzing Fibers and Dow Chemical may cease at anytime, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

In order to maintain our market position and continue to differentiate our products, we regularly develop and manufacture high value-added products to differentiate ourselves from conventional cotton textile manufacturers. We believe we have strong product capability through business relationships with Invista, Lenzing Fibers and Dow Chemical. However, given that we have no formal arrangements with any of Invista, Lenzing Fibers or Dow Chemical, we cannot assure you that any of them will continue to cooperate with us. In addition, although we intend to enter into a trademark license with Invista, there is no assurance that this will be executed. As a result, if for any reason any of them ceases to provide raw materials for our high value-added products, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We may have difficulty managing our future growth, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, our revenue amounted to RMB3,254.1 million, RMB3,737.6 million, RMB4,088.4 million (US$612.9 million) and RMB4,392.7 million (US$658.5 million), respectively. During the same periods, our profit for the year/period amounted to RMB237.8 million, RMB214.2 million, RMB285.6 million (US$42.8 million) and RMB590.9 million (US$88.6 million), respectively.

We have expanded our business through increasing our production capacity, technological upgrades, and expanding our product portfolio. This expansion and the related need to integrate new operations may place a significant strain on our managerial, operational and financial resources. Although we plan to continue to grow our business through the increase of production capacity, technological upgrades and expansion of product portfolio, we may not be able to execute such strategies or increase our product development capability, increase the sales of high value-added products or improve our product quality. As such, we may not be able to manage our growth, which could materially and adversely affect our business, results of operations, financial condition and prospects.

Any major disruption at any of our production facilities, such as a breakdown of production lines or a power shortage at any of our production plants, could adversely affect our business, results of operations, financial condition and prospects.

The textile manufacturing industry is a capital-intensive industry and it is essential for production facilities to maintain a high utilization rate to reduce the per unit cost of products and remain competitive. Our yarn production facilities are in operation 24 hours a day with three shifts on average, except during the Chinese New Year holiday and for repair and routine maintenance. Our business will be affected by disruptions at our production facilities due to causes such as natural calamities, fire or equipment breakdowns. We cannot assure you that any of our production lines will not break down due to mechanical malfunction or human error. In such an event, our production may be significantly interrupted until the problem is rectified and our business, results of operations and financial condition may be materially and adversely affected.

Moreover, we consume a substantial amount of electricity in our manufacturing process and have experienced power shortages at four of our production facilities within the past three years. The occurrence of a power failure or power surges at any of our production plants would cause a production halt or delay in our production schedule and may delay delivery of our products to customers. Any major disruptions to any of our production facilities, if they arise, will have a material adverse impact on our business, results of operations and financial condition. We cannot assure you that all of our production facilities will always have an adequate supply of electricity, and any power shortage for a significant period of time may have a material adverse effect on our business, results of operations, financial condition and prospects.

We have been subject to labor disruptions and could be subject to other labor disruptions in the future that could interfere with our operations and materially and adversely affect our business, results of operations, financial condition and prospects.

We have been subject to labor disputes and could be subject to future labor disputes and adverse employee relations which could disrupt our operations and materially and adversely affect our business, results of operations, financial condition and prospects. We experienced two labor strikes at our Vietnam production facility, one in July 2008 regarding wage adjustments which resulted in work stoppage for three days and one in July 2010 to protest wages and working meals which resulted in work stoppage for four days. We also experienced two labor strikes at our Texhong Textile Taizhou production facility, one in March 2007 to protest wages which resulted in work stoppage for five days and one in November 2010 by employees from our Taizhou Texhong Weaving plant to protest against the possible closure of the plant as verbally instructed by the Taizhou municipal government which resulted in work stoppage for 22 days. A portion of our employees is represented by informal labor unions or the trade union with respect to Vietnam, and it is possible that such employees, and our other employees, could attempt to take collective action against us if they are dissatisfied with their employment conditions. Existing employment agreements with our employees may not prevent a strike or work stoppage in the future. We cannot assure you that we will not experience labor disputes, work stoppages, strikes and/or adverse employee relations in the future.

We require certain approvals, licenses, registrations, certificates and permits in the ordinary course of our business and any delay in obtaining these approvals or future approvals, licenses, registrations, certificates and permits could have a material adverse effect on our business, results of operations, financial condition and prospects.

Under the laws and regulations in the PRC and Vietnam, we are required to obtain appropriate approvals, licenses, registrations, certificates and permits from relevant governmental authorities. If we fail to obtain the required approvals, we may be subject to sanctions, such as fines, or be required to shut down the relevant facility, and our business, operations and financial condition will be materially and adversely affected. We have not obtained the building ownership certificates for our buildings owned by Xuzhou Texhong Times and Xuzhou Texhong Yinfeng. Also, we have not obtained certain construction permits for the construction of certain of our PRC production plants. There is no assurance that the relevant governmental authority will not enforce the requirement of obtaining such certificates, which may require us to close such plants or incur significant costs to obtain subsequent certification, which will could have a material and adverse impact on our business, financial condition and results of operations. Moreover, there is a material risk that the merger of Texhong Textile Taizhou with Taizhou Texhong Weaving will not occur as the operation period stipulated in the business license of Texhong Textile Taizhou has expired, which may result in the forced termination of Texhong Textile Taizhou by the government.

Moreover, while we have obtained all necessary licenses, certificates and permits for the production, sale, import and export of our present products, except with respect to Taizhou Texhong Weaving which we plan to close down or relocate in 2011, we cannot assure you that we will be able to renew such licenses, certificates and permits upon their expiration. In addition, eligibility criteria for these licenses, certificates and permits may change from time to time and additional licenses, certificates and permits may be required and higher compliance standards may have to be met. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations, our compliance costs may increase or such laws or regulations may prohibit or make it more expensive for us to continue with our operations or any part of our business. As a result, our operations may be restricted and our business, results of operations, financial condition and prospects would be materially and adversely affected.

Moreover, we may need to obtain approvals, licenses, registrations, certificates and permits in connection with our expansion projects and construction in Vietnam. We may not be able to obtain such approvals, licenses, registrations, certificates or permits, which may delay or require us to stop such expansion, which would have material and adverse effect on our business, financial condition and results of operations.

We are dependent on the experience and expertise of our key management personnel and failure to retain such personnel may materially and adversely affect our business, results of operations, financial condition and prospects.

We depend on the vision, expertise, experience and managerial skills of our Executive Directors and other members of our management team, including Mr. Hong, Mr. Zhu Yongxiang, Mr. Tang Daoping, Mr. Gong Zhao, Mr. Sha Tao and Mr. Hu Zhiping, who have all been critical to the success of our business. On November 21, 2004, we entered into service agreements with each of our Executive Directors for a term of three years, which have been and will be automatically renewed for successive terms of one year unless they are terminated by us or the respective Executive Director with no less than three months' advance written notice. However, we cannot assure you that we will be able to retain the services of our Executive Directors and other members of our management team, and as a result, if for any reason one or more of the management personnel cease to be involved in our management, our business, results of operations, financial condition and prospects may be materially and adversely affected. We do not maintain "key person" insurance coverage on any such persons.

In addition, we must attract highly qualified personnel with an understanding of the textile industry and retain experienced managers, especially as our business is growing and we are relying on their expertise. If we were to lose their services, we may be unable to find and integrate replacement personnel and this could significantly impair our ability to develop and implement our business strategies. Failing to hire and retain sufficient numbers of management and qualified personnel for functions such as finance, marketing, sales and operations could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our hedging activities may not achieve the intended results and may adversely affect our results of operations and financial condition

From time to time, we hedge exposures of our business to cotton price fluctuations, by entering into cotton future contracts. Nonetheless, we cannot assure that our commodity hedging activities will adequately protect us from price fluctuations, in which case, our financial condition and results of operations may be materially and adversely affected.

We are exposed to third parties' rights with respect to certain of our leased properties upon which our production facilities are situated.

As of October 31, 2010, we leased the premises for our Nantong Century Texhong Plant in the PRC, which has a production capacity of approximately 49,000 spindles. The lease agreement for the land occupied by our Nantong Century Texhong Plant expired in September 2005 without renewal and we have not paid rent since such time. The land bureau of Rudong County may assert a claim for all the rent since the expiry of the lease agreement, or may request that we return the land. In addition, although we have purchased the building for our Xuzhou Century Texhong plant which has production capacity of approximately 16,800 spindles, we do not currently have or have not registered with the relevant PRC authority any purchase or lease rights or land use right certificate with respect to the land on which the production facility is situated. If the land bureau or any other government authority or other third party asserts the rights to the land upon which these plants are situated, we may not be protected by the law and may have to close the production facility or incur significant costs to lease the land, which will have a material adverse impact on our business, financial condition, and results of operations.

If our land use rights are revoked, we would have no operational capabilities.

Under PRC law, land is owned by the state or rural collective economic organizations. Similarly, in Vietnam, land is owned by the state. The state issues to the land users the land use right certificates. Our land use rights in the PRC and Vietnam have been granted for a period of 40 to 50 years from the date of grant. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent.

Furthermore, we do not have land grant contracts or land premium receipts with respect to the land use rights held by certain of our PRC subsidiaries. For instance, we do not currently have the land grant contract and land premium receipt with respect to the land use rights held by Jiangsu Century Texhong, the land grant contract with respect to the land use rights held by Zhejiang Texhong and the land premium receipts with respect to the land use rights held by Nantong Century Texhong, Xuzhou Texhong Yinlian and Taizhou Texhong Weaving. We may be requested to provide such land grant contracts or land premium receipts when applying for building ownership certificates, transferring the properties or dealing with relevant land departments, and as we will not be able to provide them, we may be required to pay additional land premiums to the relevant land authorities or risk losing such land use rights.

All of our current production bases rely on these land use rights as the cornerstone of their operations, and the loss of any land use rights would have a material adverse effect on our business, results of operations and financial condition.

We are subject to safety and health laws and regulations and our operations entail significant risks of workplace injury or death.

We are required to comply with the applicable PRC and Vietnam national and local laws and regulations in relation to the maintenance of workplace safety and production processes. Our production facilities in the PRC are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC. Furthermore, under the PRC Labor Law and the PRC Law on the Prevention and Treatment of Occupational Diseases, we must ensure that our facilities comply with state standards and requirements on occupational safety and health conditions of employees.

In the PRC, we are also required to provide our employees with safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards. Failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame, fines of up to RMB0.5 million (US$0.1 million), and fines imposed on us could be RMB5 million (US$0.7 million) where an extraordinary production safety accident takes place and we are liable for such an accident. We may also be required to temporarily suspend our production or permanently cease our operations for significant non-compliance.

In Vietnam, we are required to comply with a number of Vietnam law provisions protecting our employees at our Vietnam production facility under which we are responsible for providing such employees with sufficient protective equipment, ensuring occupational safety and hygiene, and for the improvement of work conditions in the workplace. In addition, we are required by Vietnam laws and regulations to organize trainings for, and instruct and notify such employees of, occupational safety and hygiene regulations, and implement preventive measures for the avoidance of unnecessary accidents. In particular, to protect our employees, our Vietnam subsidiary, as a textile manufacturer, is required to compensate in kind and to provide preferential working hours and rest breaks to employees who work in dangerous environments. Failure to comply with such requirements may subject us to a fine of up to VND10 million (US$528).

We may incur substantial increases in labor cost due to the promulgation of new labor laws and regulations or general increases in wages in the PRC and Vietnam.

In June 2007, the PRC government enacted the Labor Contract Law, which became effective on January 1, 2008. Compared to the former labor law, the Labor Contract Law establishes more restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law, an employer is obligated to sign an unlimited term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. The employer also has to pay compensation to employees if the employer terminates an unlimited term labor contract. Unless an employee refuses to extend an expired labor contract, compensation is also required when the labor contract expires and the employer does not extend the labor contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to fifteen days, depending on their length of service. Employees who waive such vacation time at the request of employers are required to be compensated at three times their normal salaries for each waived vacation day. As a result of these new protective labor measures, our labor costs may increase.

Under the Labor Code of Vietnam ("Vietnam Labor Code"), a labor contract for a definite term can only be renewed once for another definite term, and upon expiration of the renewal, if the employer continues to employ the employee, the employer is obligated to sign an indefinite term labor contract. If an employer unilaterally terminates an employee's labor contract not in accordance with the law, the employer is required to pay compensation to the employee. In addition, mininum wage requirements have been increasing in Vietnam. Wage payment to employees of our Vietnam subsidiary must not be less than the minimum wages which are stipulated and adjusted by the Vietnam government from time to time. In October 2010, the Vietnam government increased the monthly minimum wage applicable to enterprises like our Vietnam subsidiary by VND210,000 (US$11) to VND1,550,000 (US$82), which shall take effect beginning July 1, 2011. Under a new draft labor code which is proposed to be promulgated by the National Assembly of Vietnam in 2011 to replace the current Vietnam Labor Code, minimum wage for an employee under probation will be increased to 80% (from current level of 70%) of the wage payable to an employee who has completed probation and is employed in the same position. The draft labor code is also expected to be more protective and favorable toward employees. As a result of the recent increase in minimum wages and the impending promulgation of new labor laws and regulations in Vietnam, we anticipate that the labor costs of our Vietnam subsidiary will increase, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

In addition, our employment costs as a percentage of cost of sales for the year ended December 31, 2009 and the ten months ended October 31, 2010 was 9.0% and 8.2%, respectively. As migrant workers laid off at the onset of the global recession have regained employment in other industries and regions away from traditional textile manufacturing bases, labor shortages have persisted, accelerating a general trend of rising wages. We cannot assure that we can secure sufficient labor for our production facilities in the PRC and Vietnam at cost acceptable to us.

We may be liable for fines and other penalties due to our non-compliance with PRC social insurance fund and housing provident fund laws and regulations.

Social benefits in certain parts of the PRC have not developed at the same levels. Local policies or requirements on the provision of social benefits in Changzhou City, Taizhou City, Nantong City and Xuzhou City of Jiangsu Province and Jinhua City of Zhejiang Province where we operate are less stringent than requirements under relevant PRC laws and regulations on social insurance funds and housing provident funds. We may not have complied with the relevant local policies and requirements regarding social insurance fund. Moreover, we have not paid housing provident funds for all our PRC employees as required by the PRC Management Regulations on the Hosing Provident Fund and may be subject to fines ranging from RMB10,000 to RMB50,000 and enforcement action by a PRC court, which could have a material adverse effect on our financial condition.

Our insurance coverage may not adequately protect us against operating hazards, major disruptions or damages at any of our production facilities and natural disasters and any resulting losses.

We maintain insurance policies which we believe are in line with industry practice and in amounts which we believe to be commercially reasonable. However, we may become subject to liabilities or losses including liabilities or losses resulting from major disruptions or damages at any of our production facilities, pollution or other hazards, against which we have not insured adequately, or at all, or cannot insure. Our business could also be materially and adversely affected by natural disasters. For example, our Xuzhou Texhong Yinlian facility experienced heavy snowfall in 2009, which caused some damage to the production facility. We cannot assure you that the regions where our production bases are located will not be affected by natural disasters in the future. Our insurance policies contain certain exclusions and limitations on coverage, such as in the case of earthquakes, which may result in our claims not being honored to the extent of losses or damages suffered by us. In addition, our insurance policies may not continue to be available at economically acceptable premiums, or at all. The occurrence of a significant adverse event, the risks of which are not fully covered or honored by such insurers, could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, under some of our debt agreements, we are required to name the lenders under such debt agreements as beneficiaries or loss payees under some of our insurance policies, or assign the benefit of various insurance policies to the lenders. Therefore, even if insurance proceeds were to be payable under such policies, any such insurance proceeds will be paid directly to our lenders instead of to us or our Noteholders. If an insurable loss has a material effect on our operations, our lenders are not required to pay us any insurance proceeds or to compensate us for loss of profits or for liabilities from business interruption.

We may not be able to adequately protect or continue to use our intellectual property rights, and we may not be able to continue developing our production technology or acquire new production technology, or protect our know-how.

We use a number of trademarks and trade names in connection with our business. As of October 31, 2010, we had registered the "新竹" ("Xin Zhu") trademark in the PRC. Our Vietnam subsidiary has registered the "," "TEXHONG" and "天虹" trademarks in Vietnam. The success of our business, in part, depends on our continued ability to use our existing trademarks in order to increase brand awareness. Although we have a number of valid registrations, these actions may be inadequate to prevent imitation of our brand names or logos by others. Any litigation to protect our brand names and logos may require a significant commitment of time on the part of our management and may be costly.

In addition, we focus our operations on high value-added products. We believe that our technological know-how in relation to stretchable core-spun yarn cannot be easily copied or developed by our competitors. However, except for certain utility models registered in the PRC, such technological know-how is not registered intellectual property and we cannot assure you that our know-how will not be misappropriated by or disclosed to third parties, or that our competitors will not be able to independently develop alternative technologies that are equivalent or superior to our technologies. If any of the above occurs, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any fluctuations in the costs of utilities and transportation costs and transportation delays and could materially and adversely affect our business, financial condition and results of operations.

A significant amount of our production costs are incurred for the electricity and steam that we use at our production facilities and for transportation of our products. For the year ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, our utilities cost and transportation costs together accounted for 6.9% and 7.0% and 7.7% and 6.6% of our revenue, respectively. We are affected by fluctuations in our utility costs and transportation costs. Any increase in such costs without a corresponding increase in the selling price of our products would reduce our operating results. We may not be able to pass on such cost increases or significant fluctuations to our customers, which will depend upon market conditions and our relative cost position compared to our competitors. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

We could be adversely and materially affected by the application of antitrust laws and anti-dumping and anti-subsidy duties.

Although tariffs and import quotas on textile products among WTO members (which include the PRC and Vietnam) have been gradually removed, WTO members may introduce other forms of trade barriers, initiate negotiations in respect of export value of textiles and clothing by the PRC, and may impose a limit each year on the growth of textile and clothing imports from the PRC. As a result, our export business and development will remain restricted until there is free trade, if at all, established for all cotton textile producers in the global market-place.

Under the relevant WTO agreements, if a product is considered to have been dumped into the importing country, causing material injury to an established industry in that country, such country may initiate an investigation and impose anti-dumping duties. Further, a WTO member may introduce technical barriers to trade, including technical regulations and standards on imports and environmental protection requirements. Any trade barrier could have a material adverse impact on our business, results of operations, financial condition and prospects.

In recent years, antitrust investigations and actions have been launched in a number of jurisdictions against companies in the textile industry, indicating that the sector in which we operate may face continuing regulatory scrutiny. Approximately 10.5% and 11.7% of our sales for the year ended December 31, 2009 and the ten months ended October 31, 2010, respectively, were to customers outside of the PRC. Anti-dumping and anti-subsidy duties have been imposed by certain countries to which we export our products, such as Brazil and Turkey, on imports of textile products from the PRC. Such anti-dumping and anti-subsidy duties also make it more difficult for such products to compete with textile products produced locally in such countries and as a result, give producers in such countries a competitive advantage over our imports from the PRC. As a result, our business could be materially and adversely affected by the application of national or international competition laws to any agreements or practices in which we have been engaged or are a party thereto.

We require substantial capital to expand our business and any failure to obtain capital on acceptable terms, or at all, will have a material adverse effect on our business, results of operations, financial condition and prospects.

We require significant capital to acquire land use rights, build our production and operating facilities, purchase production equipment, develop new products and develop and implement new technologies. As of October 31, 2010, our bank and cash balance was approximately RMB241.5 million (US$36.2 million) and our bank loans amounted to approximately RMB1,096.1 million (US$164.3 million). We may not be able to obtain financing on commercially acceptable terms, or at all, for our capital expenditures, which in turn could hinder our growth. In the past, we have funded our working capital and capital expenditure requirements through a combination of sources, including cash flow from operations, our initial public equity offering, bank borrowings, supplier financing and other financing. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing which will depend on a number of factors, including our financial condition, results of operations, cash flows and business reputation, as well as general economic conditions, costs of financing, including changes in interest rates, prevailing conditions in the capital markets, and regulatory requirements. In the event that the banks providing our existing banking facilities do not continue to extend similar or more favorable facilities to us and we fail to obtain alternative financing in a timely manner, at a reasonable cost and on reasonable terms, our expansion plans may be delayed, and our business, results of operations, financial condition and prospects could be adversely and materially affected.

We may incur significant costs to comply with environmental protection laws and regulations, and any failure to comply with such laws and regulations could subject us to fines, rectification orders, suspension or cessation of production which could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are required to comply with existing environmental protection laws and regulations in the PRC and Vietnam. Current national and local environmental protection regulations require a payment of fines and even closure of the production facilities once the production facilities are found to have caused serious environmental problems. While we have not been subject to any fines or penalties concerning environmental pollution in the past, certain of our PRC subsidiaries have not complied fully with environmental laws.

Under the PRC Law on the Prevention and Control of Water Pollution, all entities that discharge waste water are required to obtain a waste discharge permit. Among our PRC subsidiaries, only Jiangsu Century Texhong, Xuzhou Texhong Times and Xuzhou Texhong Yinlian currently hold valid waste discharge permits. Other of our PRC subsidiaries may also discharge waste water in connection with their production but without a waste discharge permit and may be subject to the penalties by PRC environmental authority.

Under the PRC Law on the Evaluation of Environmental Impact, all construction projects are required to be evaluated for their environmental impact. According to Regulations on the Environmental Protection of Construction Projects, after the completion of a construction project, the construction unit is required to apply to the environmental protection department for an environmental impact examination and approval of environment-related facilities of the project. Several of our PRC subsidiaries have not obtained an evaluation report on their environmental impact or examination approval of environment-related facilities. Construction projects in progress may be suspended until all the necessary procedures are supplemented and the entities which have not been evaluated for their environmental impact are subject to a fine ranging from RMB50,000 to RMB100,000. Construction projects already completed without any evaluation and approval may be subject to a fine of less than RMB100,000.

In addition, we cannot assure you that the government priorities will not introduce new laws and regulations which would impose more stringent controls on environmental pollution in the future. The PRC government has adopted extensive environmental laws and regulations with national and local standards in relation to emissions control, discharge of waste water and storage, transportation, and treatment and disposal of waste materials. Compliance with environmental laws and regulations which apply to us and the cotton textile industry may be difficult or impose significant costs. For instance, according to the Notice of the Ministry Environmental Protection of the PRC on the *Implementation of Limitation of Excessive Production Capacity and Development in certain Industries and their Healthy Development* (Huan Fa [2009] No. 127) issued on October 31, 2009, projects which have yet to commence the preparation of environmental impact assessment reports, or for which such reports are still pending approval or have been substantially revised will no longer be accepted and approved. This could have a material adverse impact on our business, financial condition, results of operations and prospects if we are unable to implement our expansion or development projects in the future. For further information on the relevant PRC laws and regulations relating to environmental protection, see "Summary of Relevant Laws and Regulations—Laws and Regulations Relating to the Textile Industry in the PRC."

Moreover, environmental laws and regulations are constantly evolving and becoming increasingly stringent. As some of these environmental protection laws and regulations have not yet been promulgated or are undergoing revision, we are not able to quantify the cost of complying with these laws and regulations. For example, the State Council published on May 23, 2007 the Comprehensive Working Plan for Energy Conservation and Emission Reduction (the "Working Plan"), which requires that by the end of the Eleventh Five-Year Plan (2006-2010), the level of total energy consumption in terms of gross domestic production be reduced by 20%, and the total emission of major pollutants be reduced by 10%. For more details regarding the Working Plan, see "Summary of Relevant Laws and Regulations—Laws and Regulations Relating to the Textile Industry in the PRC." The Working Plan establishes several targets for energy conservation and emission reduction and enterprises engaged in the textile industry may be required, among other things, to eliminate out-of-date production facilities, make further investments in environmental protection and energy conservation and comply with higher environmental standards. In order to implement the Working Plan, new policies and regulations have been promulgated, imposing additional or more stringent requirements in relation to environmental protection. As a result of these and other newly promulgated policies and regulations, we may incur additional costs of compliance, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

In Vietnam, environmental laws and regulations are also developing and becoming more detailed and stringent. In 2006, the National Assembly of Vietnam issued the Resolution No. 56/2006/QH11 on the Developing Plan of Economy and Society Five Years of 2006-2010, which provides that by the end of the Five Year Plan (2006-2010), more than 50% of manufacturing and trading organizations shall meet environmental standards and the ratio of waste water systems to solid waste collected shall be more than 50% in urban zones and 90% in industrial zones. These environmental targets were further confirmed by the Vietnam Ministry of Natural Resource and Environment in 2010. Given the requirements of these policies, our Vietnam subsidiary may incur additional costs associated with compliance with environmental protection laws and regulations.

We cannot assure you that state or local authorities will not enact additional environmental protection laws or regulations or enforce current or new environmental protection laws or regulations in a more rigorous manner. We cannot assure you that we will not incur substantially more capital and operating costs for our business as a result of any future changes to environmental protection laws or regulations. Changes in the existing environmental protection laws and regulations may require us to incur substantial capital expenditure to upgrade our existing environmental protection facilities and our business, results of operations, financial condition and prospects may be adversely affected.

Any failure to maintain an effective quality control system at any of our production facilities and any significant product liability claims against us, whether successful or not, could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

The performance, quality and safety of our products depend on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality training program and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control system could damage our reputation and result in liability, which in turn could have a material adverse effect on our reputation, business, results of operations, financial condition and prospects.

We cannot assure you that a product liability claim will not be brought against us in the future. A product liability claim could require us to pay substantial damages and product liability claims against us, whether or not successful, and is costly and time-consuming to defend. Moreover, we do not have any product liability insurance to cover potential product liability arising from the use of our products. A product liability claim, with or without merit, could also result in significant adverse publicity against us and could have a material adverse effect on the marketability of our products and our reputation, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our late payment of the registered capital of Changzhou Texhong Textile, Shanghai Hongrun, Texhong Textile Taizhou, Taizhou Texhong Weaving, Taizhou Century Texhong, Texhong Suining, Xuzhou Texhong Yinlian and Zhejiang Century Texhong may result in the revocation of their business licenses by the local SAIC at any time.

The registered capital of each of Changzhou Texhong Textile, Shanghai Hongrun, Texhong Textile Taizhou, Taizhou Texhong Weaving, Texhong Suining, Xuzhou Texhong Yinlian and Zhejiang Century Texhong was not fully paid up by the Group within the required time frames. Our PRC legal counsel has confirmed that there is no quantifiable penalty under PRC law to be imposed on foreign invested companies whose registered capital installments are not paid up according to the required schedule and the relevant regulations. Nonetheless, the State Administration of Industry and Commerce and its authorized local agents ("SAIC") are authorized by law to repeal the business license of a foreign invested company if its foreign investor fails to make its capital contribution within the required time frame. As the registered capital of these companies have been paid in full and the respective SAIC offices have accepted filing of their capital registration verification reports, and have examined and accepted these companies in annual inspections. However, we cannot assure you that SAIC will not exercise its power to revoke the business licenses of these companies for late payments. Should the business licenses of any of the subsidiaries be repealed, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We prepare our consolidated financial statements in accordance with HKFRS, which differs in certain material respects from U.S. GAAP.

Our consolidated financial statements are prepared in accordance with HKFRS, which differs in certain material respects from accounting principles and auditing standards with which prospective investors may be familiar in other countries, such as U.S. GAAP. Significant differences exist between HKFRS and U.S. GAAP which may be material to the financial information prepared and presented in accordance with HKFRS contained in this Offering Memorandum. We have made no attempt to quantify the effect of any of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and the financial information contained in this Offering Memorandum. See "Summary of Certain Differences Between HKFRS and U.S. GAAP."

Risks Relating to Doing Business in the PRC and Vietnam

Adverse changes in political, economic and other policies of the PRC government or the Vietnam government could have a material adverse effect on the overall economic growth of the PRC or Vietnam, which could reduce the demand for our products or our operations and assets in Vietnam and have an adverse effect on our business, results of operations, financial condition and prospects.

A significant portion of our business and sales are made in the PRC. Further, as our stretchable core-spun yarn and other products are used by downstream customers to produce finished fabric and garment products, the general economy will also affect our business and performance. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, approximately 88.7%, 87.0%, 89.5% and 88.3% of our total revenue, respectively, were generated from products sold in the PRC. Although we intend to expand our overseas market, we anticipate the sales of our products in the PRC will continue to represent a significant portion of our total sales in the near future. Accordingly, our business, financial condition, results of operations and prospects are significantly affected by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including:

- the extent of government involvement, including the control on foreign exchange and regulation of interest rates;
- the level of development and growth rate;
- the allocation of resources;
- the importance and extent of import quotas on cotton;
- an evolving regulatory system; and
- a lack of sufficient transparency in the regulatory process.

While the PRC economy has experienced significant growth in the last 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but some of these measures may also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of the productive assets in the PRC are still owned by the PRC government. The PRC government also exercises significant control over economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the economy could result in decreased demand for our products, which in turn will have an adverse effect on our business, results of operations, financial condition and prospects.

There is no assurance that the PRC economy will continue to grow or that its growth will be steady or occur in the geographical regions or economic sectors from which we benefit. Any adverse change in the economic conditions or government policies of the PRC could have a material adverse effect on overall economic growth, which in turn could lead to a reduction in demand for our products or a decrease in the price of our products, all of which would have a material adverse effect on our business, result of operations, financial condition and prospects.

Moreover, our operations and assets in Vietnam are subject to significant political and economic uncertainties.

Government policies are subject to rapid change and the Vietnam government may adopt policies which have the effect of hindering private economic activity and greater economic decentralization. There is no assurance that the Vietnam government will not significantly alter its policies from time to time without notice in a manner with reduces or eliminates any benefits from its present policies of economic reform.

In addition, a substantial portion of productive assets in Vietnam remains government owned. For instance, all land is state owned and leased to business entities or individuals through governmental granting of land use rights. The granting process is typically based on government policies at the time of granting, which could be lengthy and complex. This process may adversely affect our business.

The Vietnam government also exercises significant control over Vietnam's economic growth through the allocation of resources, controlling payment of foreign currency and providing preferential treatment to particular industries or companies. Uncertainties may arise with the changing of governmental policies and measures. In addition, changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency, the nationalization or other expropriation of private enterprises, as well as adverse changes in the political, economic or social conditions in Vietnam, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Future changes in laws, regulations or enforcement policies in the PRC and Vietnam could adversely affect our business.

Future changes in laws, regulations or administrative interpretations, or stricter enforcement policies by the PRC government or the Vietnam government could impose more stringent requirements on us, including fines or other penalties. Changes in applicable laws and regulations may also increase our operating costs. Since 1988, the PRC government has adopted a number of measures to reform the cotton spinning industry in the PRC with a view to reducing and eliminating approximately 10 million obsolete spindles in the span of three years. With its accession into the WTO in 2001, the PRC implemented import tariffs and quota administrative measures (i.e., imposing a lower tariff (1%) on imports of cotton within the quota, whereas imports of cotton exceeding the quota would not be entitled to such preferential tariff treatment). From the PRC's entry into the WTO to date, the amount of imported cotton benefiting from the preferential tariffs has increased from 743,000 tonnes to 894,000 tonnes per year.

Any change in the PRC policies or Vietnam policies, particularly for the textile industry and cotton imports, and compliance with such requirements, could impose substantial additional costs or otherwise have a material adverse effect on our costs, production capability and profitability, which in turn may adversely affect our business, financial condition, results of operations and prospects. For example, the PRC authorities currently do not levy any import tax on cotton textile products produced at our production facility in Vietnam. Moreover, changes in certain PRC policies may relax some requirements, such as relaxation or elimination of the quota on cotton, which could be beneficial to our competitors or could lower market entry barriers and increase competition. Further, regulatory agencies in the PRC may periodically, and sometimes abruptly, change their enforcement practice. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future actions. Any enforcement actions against us could have a material and adverse effect on us. In addition, any litigation or governmental investigation or enforcement proceedings in the PRC or Vietnam may be protracted and may result in substantial cost and diversion of resources and management attention, negative publicity or damage to our reputation and may materially affect our prospects.

If China or Vietnam imposes restrictions to reduce inflation, future economic growth in China or Vietnam could be severely curtailed, which could lead to a significant decrease in our profitability.

While the economies of China and Vietnam have experienced rapid growth, this growth has been uneven among various sectors of the economy and in different geographical areas of each country. Rapid economic growth can lead to growth in the supply of money and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. In order to control inflation in the past, China and Vietnam have imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. If similar restrictions are imposed, it may lead to a slowing of economic growth.

We are a holding company and are dependent on the receipt of dividends from our subsidiaries. However, based on regulations in the PRC, we may not be able to cause our subsidiaries to distribute sufficient amount of dividends to us to satisfy our cash needs which could have an adverse effect on our business, results of operations, financial condition and prospects.

We are a holding company and have historically relied on proceeds from equity and debt financings as well as dividends paid by our operating subsidiaries for our cash needs, including the funds necessary to service any debt we may incur, pay dividends and other cash distributions to our shareholders, and pay our operating expenses and capital expenditures. In the event equity and debt financings are not available in amounts or on terms acceptable to us, we may need to cause our subsidiaries to pay us dividends for our cash needs. The payment of dividends in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. All of our PRC subsidiaries are also required to set aside at least 10% of their after-tax profits based on PRC accounting standards each year to their general reserves until such reserves reach 50% of their own registered capital. These reserves are not distributable as cash dividends. The ability of our PRC subsidiaries to pay dividends is subject to the restrictions contained in the articles of association of our PRC subsidiaries. As a result, we may not be able to receive a sufficient amount of dividends from our subsidiaries to satisfy our cash needs, and if such a situation arises, we will not have the funds necessary to service our debt, pay dividends and other cash distributions to our shareholders, or pay our operating expenses and capital expenditures.

Because our PRC subsidiaries may only pay dividends after completion of a financial year and are subject to restrictions on dividend distribution or other payment in certain loan agreements, and our Vietnam subsidiary may only pay dividends upon the satisfaction of certain conditions, we may not have sufficient funds available to pay amounts due under the Notes.

Under the PRC regulations issued by the State Administration of Foreign Exchange ("SAFE"), our PRC subsidiaries are only allowed to declare and distribute dividends after completion of a financial year. In addition, our PRC subsidiaries have entered into certain loan agreements which restrict their ability to make dividend distributions or other kinds of payments to their shareholders unless certain conditions are met, such as, for example, the prior repayment of loans. As a result, we cannot assure that our PRC subsidiaries will be able to make dividend payments in time, or at all, to allow us to make interest and principal payments due and payable under the Notes.

With respect to our Vietnam subsidiary, the timing, form and amount of future dividend payments will depend upon its earnings, cash flow, financial conditions and other factors and will be subject to the approval of the general meeting of shareholders. However, no dividend can be declared in excess of the amount recommended by the board of management. In deciding payment of dividends, our Vietnam subsidiary's board of management must consider whether it has fulfilled its tax obligations and other financial obligations as required by Vietnam law and whether it has set aside the required provisions. Our Vietnam subsidiary may not pay dividends if such payment may result in it being unable to settle any outstanding financial obligations that are due. As a result, there can be no assurance that any future dividends by our Vietnam subsidiary will be declared or paid.

Our direct and indirect subsidiaries are separate legal entities and, other than the Subsidiary Guarantors, will have no obligation, contingent or otherwise, to pay any dividends or make any distributions to us or its Subsidiary Guarantors holding capital stock of such other subsidiaries or to otherwise pay amounts due with respect to our indebtedness and that of our Subsidiary Guarantors, or to make funds available for such payments. The ability of such subsidiaries to pay dividends and repay any intercompany loans or pay advances to their shareholders (including us and the Subsidiary Guarantors) is subject to applicable law, relevant shareholders' agreements or constitutive documents and restrictions contained in debt instruments of such subsidiaries and affiliates.

Restrictions on currency exchange may limit our ability to obtain and remit funds in foreign currencies.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our operating subsidiaries in the PRC and Vietnam to obtain and remit sufficient funds in foreign currencies to pay dividends to us and to repay intercompany loans. As a substantial portion of our sales are denominated in Renminbi, the PRC subsidiaries receive substantially all of their revenue in Renminbi, which currently is not a freely convertible currency. A portion of our revenue has to be converted into other currencies to meet our foreign currency obligations, including, among others, payment of interest under the Notes, payment of any dividends declared in respect of our ordinary shares and payment for our capital expenditures. The PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of intercompany loans, evidence of the registration of the loan with SAFE). In addition, pursuant to the EIT Law, which became effective on January 1, 2008, if the Company is deemed a "non-resident enterprise," dividends distributed to the Company by its PRC subsidiaries and interest payments made to the Company by its PRC subsidiary, are subject to a 10% withholding tax. Prior to making such interest payments, the relevant PRC subsidiary must also present evidence of payment of the 10% withholding tax. If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, including the failure of SAFE to approve the foreign exchange for the payments under such loans, the PRC subsidiary will be unable to pay us dividends or interest and principal on relevant intercompany loans when due, which may affect our ability to satisfy our obligations under the Notes.

In addition, all of our PRC subsidiaries' ability to obtain foreign exchange in the case of amounts under the capital account requires the approval of, and/or registration with, the PRC government authorities, including the SAFE. In particular, if any of these subsidiaries have foreign currency loans from the Company, or other foreign lenders, they must do so within approved limits which satisfy their approval documentation and PRC debt to equity ratio requirements. Further, such loans must be registered, converted into Renminbi and repaid out of the PRC with the approval from SAFE. The interest payable to foreign lenders is subject to withholding tax in the PRC. If we finance any of these subsidiaries by means of additional capital contributions, the amount of these capital contributions must first be approved by the relevant government authority. These limitations could affect the ability of these subsidiaries to obtain foreign exchange through debt or equity financing.

In Vietnam, any payments for dividend distributions, intercompany loans repayments or guarantee payments to a foreign company are required to be made through a licensed credit institution. In order to effect such payments, our Vietnam subsidiary is required to submit documents evidencing that all requirements under Vietnam law have been satisfied (e.g., for dividend distributions, evidence that all applicable Vietnam taxes have been paid, or for loan repayments, evidence of registration with the State Bank of Vietnam). Payments of interests or other fees under foreign loans are subject to withholding tax of 10% of payments. In addition, our Vietnam subsidiary is required under Vietnam law to declare its dividends in Vietnam Dong. As a result, banking arrangements will need to be made to convert the dividends from Vietnam Dong into U.S. Dollars for distribution if we do not have sufficient U.S. Dollars in reserve for distribution. In view of the need for currency conversion as well as compliance with the remittance rules in Vietnam before such payments can be remitted to foreign shareholders, there may be a delay in the receipt of such payments. Given that our Vietnam subsidiary's dividends, if any, are declared in Vietnam Dong, fluctuations in the exchange rate between the Vietnam Dong and the U.S. Dollar may adversely affect the value of any dividend distributions that would be made from our Vietnam subsidiary. In addition, future regulations or statutory changes relating to foreign exchange control in Vietnam could restrict or prevent the purchase of U.S. Dollars by our Vietnam subsidiary to make dividend payments.

Fluctuation in the value of the Renminbi may have a material adverse effect on our operations and financial condition.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate from time to time and is affected by, among other things, changes in the PRC's political and economic conditions and the monetary policies of the PRC government. The conversion of Renminbi into foreign currencies, including U.S. dollars, has historically been set by the People's Bank of China (the "PBOC"). On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies, determined by the PBOC, against which it can rise or fall by as much as 0.3% each day. On May 18, 2009, the PRC government further widened the daily trading band from 0.3% to 0.5%. On June 19, 2010, the PBOC decided to proceed further with reform of the exchange rate regime and to enhance the exchange rate flexibility. These changes in the policy resulted in a significant appreciation in the value of the Renminbi against the U.S. dollar between July 21, 2005 and October 31, 2010. Since the adoption of this new policy, the value of Renminbi against the U.S. dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the U.S. dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

However, it is uncertain what additional measures will be taken and what their impact could be on exchange rates in the future. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, approximately 88.7%, 87.0%, 89.5% and 88.3%, respectively, of our revenue were domestic sales and denominated in Renminbi, while the remaining portion of our revenue was export sales denominated in foreign currencies. As we intend to further develop our overseas market, an increasing portion of our revenue may be denominated in foreign currency. Our profitability could be adversely affected in the event of any fluctuations in the exchange rate of the currencies in which our sales are settled. To date, we have not adopted any hedging policy against fluctuations of the exchange rates from Renminbi to other currencies. Accordingly, we are exposed to the risks associated with fluctuations in foreign exchange rates which may adversely affect our profitability and financial condition.

There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchaser and its respective affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

If our PRC subsidiaries or Vietnam subsidiary are deemed to be ineligible for or to have wrongfully claimed preferential tax treatment or any of the preferential tax treatments or the financial incentives currently available to us in the PRC and Vietnam are discontinued, our business, results of operations, financial condition and prospects could be materially and adversely affected.

In accordance with the previous Foreign Investment Enterprise and Foreign Enterprise Income Tax Law of the PRC (the "FEIT Law") and the related implementation rules, a foreign invested enterprise with an operating period of not less than ten years in the fabric manufacturing sector is eligible for exemption of enterprise income tax for two years commencing from its first profit-making year and a 50% tax credit in the three years immediately following thereafter. This regime was abolished on January 1, 2008 when the PRC Enterprise Income Tax Law (the "EIT Law") became effective. The EIT Law adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and eliminates most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. Under the EIT Law, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 (i) in the case of preferential tax rates, continue to enjoy the tax rates, which will be gradually increased to the new tax rate within five years from January 1, 2008 or (ii) in the case of preferential tax exemption or reduction for a specified term, continue to enjoy the preferential tax holiday until the expiration of such term. Specifically, an enterprise that was enjoying tax holidays on January 1, 2008 has continued to enjoy its existing tax holidays, unless such tax holidays had not yet started on January 1, 2008 due to the loss position of the enterprise, in which case such tax holidays commenced on January 1, 2008. In accordance with a notice issued by the State Council in December 2007 on the implementation of transitional preferential tax treatments (the "Transition Implementation Notice"), enterprises that were subject to income tax at the rate of 15% prior to 2008 are subject to income tax at the rates of 18%, 20%, 22%, 24% and 25% in the years of 2008, 2009, 2010, 2011 and 2012, respectively.

Currently, Taizhou Texhong Yintai, Xuzhou Texhong Yinlian, Changzhou Texhong Textile and Texhong China Investment are still entitled to preferential tax treatment. Taizhou Texhong Yintai, Changzhou Texhong Textile and Texhong China Investment are entitled to preferential tax treatment until 2011 and Xuzhou Texhong Yinlian is entitled to preferential tax treatment until 2012.

In addition, we have received certain discretionary financial incentives from local municipal governments in relation to Xuzhou Texhong Times and Xuzhou Texhong Yinfeng to encourage our investment in those regions. For the years ended December 31, 2007, 2008, and 2009 and ten months ended October 31, 2010, we received RMB18.4 million, RMB33.1 million, RMB15.1 million (US$2.3 million) and RMB48.3 million (US$7.2 million) in government subsidiaries. As these financial incentives are discretionary, we may lose them at anytime.

In addition, we received a financial subsidy from the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, of approximately RMB21.8 million in connection with the land granted for our Taizhou Century Texhong plant and a financial subsidy from the Taizhou Economic Development Zone, Jiangsu Province of approximately RMB 16.3 million in connection with the land granted for our Xuzhou Texhong Yilian plant. The financial subsidies offered by the Management Committee of Xuzhou Economic Development Zone and Taizhou Economic Development Zone are required to be included in their respective finance budget plans and approved by the respective local People's Representative Committee. It is not clear whether such approvals were ever obtained. If such approvals have not been obtained, we may be required to repay the financial subsidies we have received in the form of payment of the remaining balance of the land grant fees. Should this occur, our financial position may be materially and adversely affected.

With respect to our Vietnam subsidiary, pursuant to the investment certificate granted by the Dong Nai Industrial Zones Authority to our Vietnam subsidiary dated November 15, 2007, our Vietnam subsidiary is entitled to preferential corporate tax treatment so long as the Vietnam Subsidiary regularly employs 5,000 workers or more each year. The tax preference comprises a preferential corporate income tax rate of 10% of taxable income for 15 years from commencement of business operation with a tax exemption for four years from its first profitable year, and the tax reduction for nine years thereafter at 50% of the applicable rate. Under such investment certificate, if in any year within the incentive period above our Vietnam subsidiary does not employ 5,000 workers or more, we will not be entitled to the tax incentives for that particular year. Since its establishment in 2006, our Vietnam subsidiary has not in any year employed 5,000 workers or more.

Our Vietnam subsidiary is also entitled to an alternative tax incentive based on its location in the Nhon Trach Industrial Zone. We qualify for this tax incentive as our Vietnam production is based in this zone. This incentive provides for a corporate income tax rate of 15% for 12 years which includes three years of tax exemption from its first profitable year and a 50% reduction of the applicable corporate tax rate (15% or 25%, as the case may be) for the subsequent seven years. Although we believe that for the years 2008, 2009 and 2010 our Vietnam subsidiary can rely on this alternative tax incentive based on location, there is no assurance that the Vietnam tax authorities will agree with our assessment.

If the Vietnam tax authorities upon their tax audit deem our Vietnam subsidiary ineligible for the tax incentives, or to have wrongfully claimed the preferential tax treatment from 2008 (the year in which our Vietnam subsidiary first became profitable) to 2010, the company may be subject to certain penalties, including a fine of up to VND100 million (US$5,282) and back tax payment from 2008 to 2010 at the normal corporate income tax rate of 25%. In such event, our business, results of operations and financial condition will be materially and adversely affected.

Any discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by our PRC subsidiaries or our Vietnam subdiary could materially and adversely affect our business, results of operations, financial condition and prospects.

We are currently in the process of applying for an investment certificate in respect of the additional 190,000 spindles of Phase III of our Vietnam expansion project. The revised investment certificate may likely provide that this additional investment is subject to current tax laws and not the preferential tax incentives as stated in the current investment certificate for our Vietnam subsidiary. In such event, Phase III of our Vietnam production expansion project and any income that is derived from the expected 190,000 spindles will not be entitled to the tax incentives which we are entitled to with respect to profit generated from our existing production capacity in Vietnam and this will have a material and adverse effect on our business, results of operation, financial condition and prospects.

If we receive dividends or interest from our operating subsidiaries located in the PRC, such dividends or interest may be subject to PRC withholding tax.

The EIT Law imposes a withholding tax of 10% on dividends distributed by a foreign-invested enterprise and interest paid on a shareholder loan to its immediate holding company outside of the PRC, if such immediate holding company is considered as a "non-resident enterprise" without any establishment or place within the PRC or if the received dividends have no connection with the establishment or place of such immediate holding company within the PRC, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. The Cayman Islands, where we are incorporated, does not have such a tax treaty with the PRC. According to the Arrangement Between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, dividends paid by a foreign-invested enterprise in the PRC to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). The equity interests in all of our subsidiaries in the PRC are invested and held by Hong Kong incorporated entities. Thus, dividends paid to us by our subsidiaries in the PRC may be subject to the 5% withholding tax if such Hong Kong incorporated entities are each considered as a "non-resident enterprise" under the EIT Law.

Nevertheless, the PRC State Administration of Taxation promulgated the Notice of the State Administration of Taxation Concerning the Meaning and Determination of the Identity of Beneficial Owner in Tax Treaties on October 27, 2009 (the "Circular 601"), which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-form" principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. It is possible, however, that under Circular 601 our Hong Kong subsidiaries would not be considered the beneficial owners of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the tax treaty between the PRC and Hong Kong.

We may be deemed a PRC resident enterprise under the EIT Law and subject to PRC taxation on our worldwide income.

The EIT Law provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% EIT rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. On April 22, 2009, the PRC State Administration of Taxation further issued a notice entitled the Notice Regarding Recognizing Offshore Established Enterprises Controlled by PRC Shareholders as Resident Enterprises Based on Their Place of Effective Management. Under this notice, a foreign company controlled by a PRC company or a group of PRC companies shall be deemed as a PRC resident enterprise if (i) the senior management and the core management departments in charge of its daily operations mainly function in the PRC; (ii) its financial decisions and human resource decisions are subject to decisions or approvals of persons or institutions in the PRC; (iii) its major assets, accounting books, company seals, minutes and files of board meetings and shareholders' meetings are located or kept in the PRC; and (iv) more than half of the directors or senior management personnel with voting rights reside in the PRC. Substantially all of our operational management is currently based in the PRC. The tax consequences of such treatment are not entirely clear as they will depend on implementation regulations and on how local tax authorities apply or enforce the PRC Enterprise Income Tax Law and any implementation regulations. Although we have been advised by our PRC legal counsel that we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes, we take the position that the Company is not a PRC resident enterprise for tax purposes. However, if we are treated as a resident enterprise for PRC tax purposes, we expect we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations.

Interest payable by us to our foreign investors and gain on the sale of the Notes may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to interest payable by resident enterprises to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest has its source within the PRC. Similarly, any gain realized on the transfer of the notes issued by resident enterprises to such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Therefore, if we are considered a PRC "resident enterprise," and interest we pay with respect to the Notes and gain realized from the transfer of the Notes are considered income derived from sources within the PRC, such income may be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on interest payable to our non-PRC investors that are "non-resident enterprises," we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if such non-PRC investors are required to pay PRC income tax on any gain realized on the transfer of the Notes, the value of an investment in the Notes may be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our equity or debt offerings to make loans or additional capital contributions to our PRC operating subsidiaries, which could materially and adversely affect our business, results of operations, financial condition and prospects.

In utilizing the proceeds of any equity or debt offering, as an offshore holding company of our PRC operating subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned subsidiaries in the PRC, each of which is a foreign-invested enterprise, to finance their activities, cannot exceed statutory limits and must be registered with the SAFE or its local counterpart.

We may also decide to finance our wholly-owned subsidiaries by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce in the PRC or its local counterparts. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, or at all, with respect to future loans or capital contributions by us to our PRC subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of any equity or debt offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our business, results of operations, financial condition and prospects.

We face risks related to health epidemics and other outbreaks of contagious diseases, including swine flu, avian flu, severe acute respiratory syndrome, or SARS.

Our business could be materially and adversely affected by the effects of swine flu, avian flu, SARS or another epidemic or outbreak. During April and May 2009, there were outbreaks of highly pathogenic swine flu in certain regions of the world, including parts of Asia. In 2007 and early 2008, there were reports of outbreaks of a highly pathogenic avian flu in certain regions of Asia and Europe. In 2005 and 2006, there were reports of occurrences of avian flu in various parts of the PRC, including a few confirmed human cases. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected the PRC, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. These outbreaks of contagious diseases and other adverse public health developments in the PRC would have a material adverse effect on our business operations. These could include restrictions on our ability to travel or to ship our products within the PRC, as well as cause temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and materially and adversely affect our business, financial condition, results of operations and prospects. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu, avian flu, SARS or any other epidemic.

Our operations are subject to the uncertainty associated with the legal system in the PRC and Vietnam, which could adversely affect our business, results of operations, financial condition and prospects, or limit the legal protection available to us or to existing or potential investors.

We conduct our business through our operating subsidiaries in the PRC and Vietnam. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, prior court decisions may be cited as persuasive authority but do not have legally binding force. The PRC government has promulgated laws and regulations in relation to economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to establishing a comprehensive legal system conducive to investment activities. However, the implementation, interpretation and enforcement of these laws and regulations may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history, limited volume of court cases and their non-binding nature. Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. The PRC administrative and court authorities also have significant discretion in interpreting and enforcing statutory and contractual terms. As such, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. As regards our competitors, depending on the government agency or how an application or a case is presented to such agency or other variables, we may receive a less favorable application of the law. In addition, any litigation or legal proceeding in the PRC may be protracted and result in substantial legal costs and diversion of resources and management attention.

In addition, the legal and regulatory framework in Vietnam is not as unified and stable as in developed economies. Furthermore, policy changes and interpretations of applicable laws can produce unexpected consequences which could have a material adverse effect on domestic business operations. The laws and the regulatory apparatus affecting the economy and regulating commercial and business activities have been developing since the beginning of the "doi moi" policy commencing in 1986, and are in a relatively early stage of development. Although in recent years the legal system in Vietnam has been moving towards increasingly sophisticated, transparent access for investors, uncertainties and legal issues occur in laws such as the Civil Code, the Commercial Law, the Law on Securities, the Law on Investment and the Law on Enterprises introduced by the National Assembly of Vietnam and the dependence of such laws on implementing documents issued by the Government and ministries of the Government still impact the business activities of enterprises.

We cannot predict the effect of future legal developments in the PRC or Vietnam, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national law, the overturn or modification of the lower-level authority's decisions at the higher level, or the changes in judiciary and administrative practices. As a result, there is substantial uncertainty as to the legal protection available to us or to our Noteholders.

The PRC and Vietnam are subject to various natural disaster risks, including typhoons and earthquakes, which could lead to social unrest and economic loss.

Our business is subject to general and social conditions, such as natural disasters, epidemics, acts of God and other events and disasters that are beyond our control, which could materially and adversely affect the economy, infrastructure and livelihoods of the people in the PRC and Vietnam.

The regions and cities in the PRC in which we operate are subject to various natural disaster risks. Jiangsu and Zhejiang Provinces are subject to flooding or typhoons.

Vietnam is located in a region of Asia that experiences many strong typhoons each year and is thus susceptible to associated risks, including flooding, property damage, loss of life, and general social and economic disruption. In September 2009, Typhoon Ketsana made landfall in Vietnam and killed over 150 people, injured hundreds more and damaged over 250,000 homes. Any future similar typhoons could result in social and economic disruptions, which may materially and adversely affect our business, financial condition and results of operations.

Additionally, Vietnam is located near an active earthquake zone and is therefore subject to significant seismic activity that can lead to destructive earthquakes and tsunamis, or tidal waves. While no earthquakes with significant injuries or fatalities have occurred in the recent past, if one occurs, it could have an adverse effect on Vietnam's social and economic stability and materially and adversely disrupt the operations of our Vietnam subsidiary.

Risks Relating to the Notes and the Subsidiary Guarantees

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are primarily a holding company that operates through our subsidiaries located in the PRC, Vietnam, Hong Kong and Macau. Certain Subsidiary Guarantors, which guarantee the Notes are also primarily holding companies that do not have significant operations or assets. Neither our current PRC subsidiaries, which are, and are likely to continue to be, our operating subsidiaries nor the other Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Moreover, no future subsidiaries that may be organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. As a result, (i) our obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of the existing or future PRC subsidiaries and the Other Non-Guarantor Subsidiaries, and (ii) all claims of creditors of the existing or future PRC subsidiaries and the Other Non-Guarantor Subsidiaries, such as trade creditors and lenders, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over our claims or the claims of the Subsidiary Guarantors and those of our creditors or the creditors of the Subsidiary Guarantors, including the Noteholders. We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future subject to the terms of the Notes. Our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or those of the Subsidiary Guarantors securing the related obligations over claims of the Noteholders in relation to the Notes. As of October 31, 2010, our PRC subsidiaries had total bank loans outstanding in an aggregate amount of approximately RMB518.5 million (US$77.7 million).

We cannot assure you that the Subsidiary Guarantors and any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The guarantee arrangement of our Vietnam subsidiary guarantor may not be valid and enforceable and we may not be able to effect any payment thereunder.

We have been advised by our Vietnam legal counsel, YKVN, that there is no clear basis under Vietnam law for an upstream guarantee such as the guarantee by our Vietnam subsidiary and payment thereunder. The law does not indicate whether a guarantee arrangement in favor of an overseas beneficiary will be considered as a current transaction (like a normal payment of services) or a capital transaction (like an offshore lending transaction), and whether such arrangement is required to be approved by any relevant authority. If the guarantee arrangement is viewed as a capital transaction, approval of the relevant authority may be required (e.g., overseas lending transaction of an economic organization requires approval of the Prime Minister of Vietnam). Nevertheless, there is no clear guidance on the procedures for approval for such capital transaction and our Vietnam legal counsel, YKVN, is not aware of any previous approval by the Prime Minister or the State Bank of Vietnam in relation to overseas lending transactions. In addition, Vietnam regulations on foreign exchange permit the transfer of foreign currency overseas only for a limited number of specified purposes, which do not specifically include the payment under a guarantee. In the absence of such permission, a transfer bank may request that specific approval from the relevant authority (e.g., the Prime Minister or the State Bank of Vietnam) be obtained for such remittance. Therefore, we cannot assure you of the validity and enforceability of the upstream guarantee arrangement of our Vietnam subsidiary and any payments thereunder. In our best effort to resolve this issue, our Vietnam subsidiary has submitted to the State Bank of Vietnam an official letter to seek its clarification on the characterization of the upstream guarantee given by our Vietnam subsidiary and any approval required therefor. However, as of the date of this Offering Memorandum, we have not received any responses from the State Bank of Vietnam on matters relating to the upstream guarantee given by our Vietnam subsidiary.

If the upstream guarantee of our Vietnam subsidiary is not valid or enforceable, (i) our obligations under the Notes and the obligations of the other non-Vietnam Subsidiary Guarantors under the Subsidiary Guarantees may be effectively subordinated to all existing and future obligations of our existing Vietnam subsidiary or future Vietnam subsidiaries, and (ii) all claims of creditors of our existing Vietnam subsidiary or future Vietnam subsidiaries, such as trade creditors and lenders, and rights of holders of preferred shares of such entities (if any) may have priority as to the assets of such entities over our claims or the claims of the other non-Vietnam Subsidiary Guarantors and those of our creditors or the creditors of the other non-Vietnam Subsidiary Guarantors, including the Noteholders.

We may incur substantial additional indebtedness in the future or may not be able to satisfy certain restrictions in our existing bank and trade facilities, which could materially and adversely affect our financial condition and our ability to generate sufficient cash to satisfy our current and future indebtedness.

We have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our indebtedness could have important consequences to the Noteholders. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less financial obligations and/or indebtedness;
- limit our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, the Group may from time to time incur substantial additional indebtedness and contingent liabilities including project financing of US$60 million in connection with Phase III of our Vietnam expansion which we expect to incur in the first quarter of 2011. Although the Indenture governing the Notes and other existing facility agreements restricts the ability of the Company and/or its Restricted Subsidiaries to incur additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If the Company or its subsidiaries incur additional debt, the risks that the Group faces as a result of its already substantial indebtedness and leverage could intensify.

In addition, the terms of the Indenture governing the Notes and other of our existing bank facilities prohibit the Group from incurring additional indebtedness unless the Group is able to satisfy certain financial ratios, and contain other restrictions. The Group's ability to meet its financial ratios may be affected by events beyond its control. There cannot be assurance that the Group will be able to meet these ratios. Certain of the Group's financing arrangements also impose operating and financial restrictions on its business. Such restrictions in the Notes and the Group's other financing arrangements may negatively affect its ability to react to changes in market conditions, take advantage of business opportunities the Group believes to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in its business.

Moreover, our trade facilities are uncommitted and the lenders have the discretion to cancel or suspend, determine whether or not to permit drawings, and demand repayment at any time and for any reason in relation to these facilities. See "Description of Other Material Indebtedness."

Any of these factors could materially and adversely affect the Company's ability to satisfy its obligations under the Notes and other debt.

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our ability to make scheduled payments on, or to refinance our obligations with respect to, our indebtedness, will depend on our financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond our control. We may not generate sufficient cash flow from operations and future sources of capital may not be available to us in an amount sufficient to enable us to service our indebtedness, including the Notes, or to fund our other liquidity needs. If we are unable to generate sufficient cash flow and capital resources to satisfy our debt obligations or other liquidity needs, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There is no assurance that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, or at all.

In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Other credit facilities and the Indenture that will govern the Notes will restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms and in a timely manner, would materially and adversely affect our financial condition, results of operations and our ability to satisfy our obligations under the Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness" and "Description of the Notes."

The interest of our controlling shareholders may conflict with the interest of Noteholders, and they may take actions that are not in, or may conflict with, the interest of the Noteholders.

As of October 31, 2010, Mr. Hong, our founder, Chief Executive Officer and the Chairman of our board of directors, beneficially owned 61.20% of our outstanding ordinary shares. Mr. Zhu Yongxiang ("Mr. Zhu"), an Executive Director and our Chief Operation Officer, beneficially owned 26.17% of our outstanding shares. For information relating to the beneficial ownership of our shares, see "Substantial Shareholders' and Directors' Interests." These shareholders can control matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions.

From time to time, we enter into, and we expect to continue to enter into, transactions with entities controlled by Mr. Hong and Mr. Zhu and other related parties. See "Related Party Transactions" for a summary of our transactions with related parties since 2007. Although it is our policy to conduct these transactions on normal commercial terms and on an arm's-length basis and we believe that each of our transactions have been entered into on normal commercial terms and on an arm's-length basis, we cannot assure you that any amounts we may pay in these transactions would necessarily reflect the prices that would be paid by an independent third party.

The terms of the Notes and the Subsidiary Guarantees will contain covenants limiting our financial and operating flexibility.

Covenants contained in the documentation relating to the Notes and the Subsidiary Guarantees will restrict our ability and any Restricted Subsidiary to, among other things:

- incur or guarantee additional indebtedness and issue certain redeemable or preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, on its capital stock;
- prepay or redeem subordinated debt or equity;
- make certain investments or other specified restricted payments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to any of the Restricted Subsidiaries;
- issue or sell capital stock of Restricted Subsidiaries;
- sell, lease or transfer certain assets;
- enter into sale and leaseback transactions;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities; and
- consolidate or merge with other entities.

All of these covenants are subject to the limitations, exceptions and qualifications described in "Description of the Notes—Certain Covenants." These covenants could limit our ability to pursue our growth plan, restrict our flexibility in planning for, or reacting to, changes in our business and industry, and increase our vulnerability to general adverse economic and industry conditions. We may also enter into additional financing arrangements in the future, which could further restrict our flexibility. Any breach of covenants contained in the Notes may lead to an event of default under the

Notes and the Indenture and may lead to cross-defaults under our other indebtedness. We cannot assure you that we will be able to pay any amounts due to Noteholders in the event of such default, and any default may significantly impair our ability to pay, when due, the interest of, and principal on, the Notes and the Subsidiary Guarantors' ability to satisfy their obligations under the Guarantees.

Enforcing your rights under the Notes or the Subsidiary Guarantees across multiple jurisdictions may prove difficult.

The Notes will be issued by us and guaranteed by the Subsidiary Guarantors. We are incorporated in the Cayman Islands. There are 15 Subsidiary Guarantors, eight of which are incorporated under the laws of the British Virgin Islands, five in Hong Kong, one in Macau and one in Vietnam. The Notes, the Subsidiary Guarantees and the Indenture will be governed by the laws of the State of New York. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the British Virgin Islands, Macau and Vietnam. Such multi-jurisdictional proceedings are complex, may be costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Subsidiary Guarantees will be subject to the insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings. In addition, the bankruptcy, insolvency, administrative and other laws of the Cayman Islands, the British Virgin Islands, Hong Kong, Macau and Vietnam may be materially different from, or be in conflict with, each other and those with which you may be familiar, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply and could adversely affect your ability to enforce your rights under the Notes and the Subsidiary Guarantees in the relevant jurisdictions or limit any amounts that you may receive.

If we or the Restricted Subsidiaries are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause payment of our debt to be accelerated.

If we or the Restricted Subsidiaries are unable to comply with the restrictions and covenants in the Indenture, or current or future debt and other agreements entered into by us or the Restricted Subsidiaries, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us or the Restricted Subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Also, certain of our debt facilities (committed and uncommitted) provide that it is within the discretion of the lender to declare an event of default for a material adverse change in the financial position or the ability of the borrowers to perform its obligations. Furthermore, some debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, default by us or a Restricted Subsidiary under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under other debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture. If any of these events occurs, we cannot assure you that our cash flow would be sufficient to repay in full all such indebtedness, or that we or Restricted Subsidiaries would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event.

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the Noteholders in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

We cannot assure you that an active trading market will develop for the Notes in which case your ability to sell the Notes will be limited.

The Notes will be new securities for which there is no existing market. We cannot assure you as to:

- the liquidity of any market that may develop for the Notes;
- your ability to sell the Notes; or
- the prices at which you would be able to sell the Notes.

Future trading prices of the Notes will depend on many factors, including, among other factors, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. The Initial Purchaser of the Notes has advised us that it currently intends to make a market in the Notes. However, the Initial Purchaser is not obliged to do so, and it may discontinue any market making activities at any time without notice. As a result, there is no assurance that an active trading market will develop for the Notes and if no active trading market develops, you may not be able to resell the Notes at a fair value, or at all.

Although approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST, there can be no assurance that such listing will be obtained for the Notes, or if obtained, that the Notes will remain listed, or that if listed, a liquid market will develop. If we can no longer maintain the listing on the SGX-ST or if it becomes unduly burdensome to make or maintain such listing, we may cease to make or maintain such listing on the SGX-ST, and although we will use reasonable best efforts to obtain and maintain the listing of the Notes on another stock exchange in accordance with the Indenture, we cannot assure you that we will be able to do so. Although no assurance can be made as to the liquidity of the Notes as a result of listing on the SGX-ST or another recognized listing in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the SGX-ST or another listing exchange in accordance with the Indenture may have a material adverse effect on an investor's ability to resell the Notes in the secondary market.

The liquidity and price of the Notes following the offering of the Notes may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future.

The ratings assigned to the Notes may be lowered or withdrawn in the future.

The Notes are expected to be assigned a rating of "Ba2" by Moody's and "BB" by Standard & Poor's. The ratings reflect the opinions of the rating agencies regarding our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment, circumstances in the future so warrant. We have no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST which may be different from the standards applicable to companies in certain other countries.

If the Notes are accepted for listing on the SGX-ST, we will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed.

You may experience difficulties in effecting service of legal process, recovering in civil proceedings for United States securities laws violations, enforcing foreign judgments or bringing original actions in the PRC, Vietnam or any of the jurisdictions in which our subsidiaries are incorporated or operate based on United States or other foreign laws against us or our management.

We are an exempted company with limited liability incorporated under Cayman Islands law and substantially all of our assets are located outside the United States. In addition, a majority of our directors and executive officers reside outside the United States, and a substantial portion of their assets are located outside of the United States. We conduct a substantial majority all of our operations in the PRC and Vietnam and significantly all of our or our subsidiaries' assets are located in the PRC and Vietnam or outside of the United States. In addition, all of our directors and executive officers reside within the PRC or Hong Kong. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC, Hong Kong or Vietnam upon us or any of our subsidiaries or any of our directors and senior executive officers, including with respect to matters arising under United States federal securities laws or applicable state securities laws.

We have been advised by our special Cayman Islands legal counsel that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in any U.S. federal or New York state court located in the borough of Manhattan, City of New York against the Company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

There is uncertainty as to whether the courts of the Cayman Islands would (i) enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States; or (ii) entertain original actions brought in the courts of the Cayman Islands against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States.

The PRC and Vietnam do not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. In addition, there is doubt as to (i) whether a judgment of a United States court based solely upon the civil liability provisions of the United States federal or state securities laws would be enforceable in the Cayman Islands, Hong Kong, the PRC or Vietnam against the Company or any of our subsidiaries or any of our directors and officers; and (ii) whether an original action could be brought in the Cayman Islands, Hong Kong, the PRC or Vietnam against us or any of our subsidiaries or any of our directors and officers to enforce liabilities based solely upon the United States federal or state securities laws.

As a result, it may not be possible for you to effect service of process within the United States upon us or our subsidiaries or our respective directors and executive officers, or to enforce any judgments obtained in United States courts predicated upon civil liability provisions of the U.S. securities laws. In addition, we cannot assure you that civil liabilities predicated upon the federal or state securities laws of the United States will be enforceable in such jurisdictions. See "Enforcement of Civil Liabilities."

Your rights as a creditor may not be the same under the insolvency laws applicable to us and the Subsidiary Guarantors as under United States or other insolvency laws.

We are incorporated under the laws of the Cayman Islands and the Subsidiary Guarantors are incorporated in jurisdictions outside the United States, including the British Virgin Islands, Hong Kong, Macau and Vietnam. The insolvency laws of the Cayman Islands are likely to differ and may not be as favorable to you as those of the United States or another jurisdiction with which you may be familiar.

Certain facts and statistics contained in this Offering Memorandum have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured.

Certain facts and statistics in this Offering Memorandum related to the PRC, Vietnam and the industries in which we operate are derived directly or indirectly from official government sources generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us, the Initial Purchaser or any of our or its respective affiliates or advisors or any other parties involved in this offering of the Notes and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this Offering Memorandum may be inaccurate and the statistics may not be comparable to statistics produced for other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on all such facts and statistics.

The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair preference laws, which could impair the enforceability of the Subsidiary Guarantees.

Under bankruptcy laws, insolvency laws, fraudulent transfer laws, corporate benefit, financial assistance, insolvency or unfair preference or similar laws in the British Virgin Islands, Hong Kong, Macau, Vietnam or other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that Subsidiary Guarantor if, among other things, the Subsidiary Guarantor, at the time it incurred the indebtedness evidenced by, or when it gives its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the Subsidiary Guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the Subsidiary Guarantee not been given;

- received less than the reasonably equivalent value or fair consideration for the incurrence of such Subsidiary Guarantee or there was otherwise an absence of or insufficient corporate benefit under applicable laws;

- was insolvent or rendered insolvent by reason of such incurrence;

- was engaged in a business or transaction for which the Subsidiary Guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, the Subsidiary Guarantor would be considered insolvent at a particular time if it is unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured. Under the laws of the British Virgin Islands, it would also be necessary for the directors of the Subsidiary Guarantors to ensure that the Subsidiary Guarantor is solvent immediately after entry into, and performance of any obligation under, the transaction, and that:

- it will be able to satisfy its liabilities as they become due in the ordinary course of its business; and

- the realizable value of the assets of the Subsidiary Guarantor will not be less than the sum of its total liabilities other than deferred taxes, as shown in the books of account, and its capital.

The directors of the Subsidiary Guarantors should also ensure that the issued capital of the Subsidiary Guarantor is maintained and that, after this transaction, the Subsidiary Guarantor would have sufficient net assets to cover the nominal value of its issued share capital.

In addition, a Subsidiary Guarantee may be subject to review under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the Subsidiary Guarantors. In such case, the analysis set forth above would generally apply, except that the Subsidiary Guarantee could also be subject to the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency, corporate benefit or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of a Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, Noteholders would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) and any preferred stock of such Subsidiary Guarantor and would solely be creditors of the Company and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the Noteholders.

United States securities laws restrict the circumstances under which you can transfer the Notes.

We are offering the Notes in reliance upon exemptions from registration under the Securities Act and applicable state securities laws. Therefore, the Notes may be transferred or resold only in transactions registered under, exempt from, or not subject to the registration requirements of the Securities Act and all applicable state securities laws. You should read the discussions under "Plan of Distribution" and "Notice to Investors" for further information about these and other transfer restrictions. It is your obligation to ensure that your offers and sales of Notes comply with applicable law.

The Notes will initially be held in book entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through DTC and its participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream"). Interests in the global notes will trade in book entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or registered holders of Notes. The custodian for DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent which will make payments to DTC. Thereafter, these payments will be credited to accounts of participants (including Euroclear and Clearstream) that hold book entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the custodian for DTC, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of DTC, Euroclear and Clearstream, and if you are not a participant in DTC, Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the registered holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from registered holders of the Notes. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book entry interests, if you own a book entry interest, you will be restricted to acting through DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the Initial Purchaser's discount, fees, commissions and other estimated expenses payable in connection with this offering, will be approximately US$ million. We intend to use the net proceeds for the following purposes:

- approximately US$69 million to fully repay the outstanding principal amount of, and all accrued and unpaid interest on, the US$43.0 million credit facility agreement dated April 26, 2010 with Citicorp International Limited as Agent (the "2010 Facility") and to fully redeem the US$25.0 million Guaranteed Index-linked Notes due 2012, pursuant to a Trust Deed dated July 27, 2007, as supplemented on September 3, 2009, with DB Trustees (Hong Kong) Limited as Trustee (the "Index-linked Notes"), which are entirely held by Deutsche Bank AG, London Branch (see "Description of Other Material Indebtedness" for details of the outstanding principal amount, interest rate, maturity date and the use of the proceeds of the existing debt to be repaid using the proceeds of the offering of the Notes); and

- the remaining amount for capital expenditures, including to expand our production facilities, and for general corporate purposes.

Pending application of the net proceeds of the offering, we intend to invest the net proceeds in short-term demand deposits and/or money market instruments.

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. On June 20, 2010, the PBOC announced that it intends to further reform the RMB exchange rate regime by allowing greater flexibility in the RMB exchange rate. The PRC government in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day.

On May 18, 2007, the PBOC announced that the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar will be expanded from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**Low**	**Average**(1)	**High**	**Period End**
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.7800	6.9477	7.2946	6.8225
2009	6.8176	6.8307	6.8470	6.8259
July 2010	6.7709	6.7762	6.7807	6.7735
August 2010	6.7670	6.7873	6.8069	6.8069
September 2010	6.6869	6.7396	6.8102	6.6905
October 2010	6.6397	6.6678	6.6912	6.6707
November 2010	6.6330	6.6538	6.6892	6.6670
December 2010 (through December 23, 2010)	6.6450	6.6569	6.6745	6.6450

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

On December 23, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York was US$1.00 to RMB6.64501.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated borrowings and capitalization as of October 31, 2010:

- on an actual basis; and
- as adjusted to give effect to the issuance of the Notes and the repayment of the 2010 Facility and redemption of the Index-linked Notes as described under "Use of Proceeds".

This table should be read in conjunction with "Use of Proceeds," the "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial information and related notes included elsewhere in this Offering Memorandum. Except as otherwise disclosed in this Offering Memorandum, there has been no material adverse change in our capitalization since October 31, 2010.

	As of October 31, 2010 (unaudited)			
	Actual		As Adjusted[1]	
	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
Current borrowings[2][4][5]				
Secured bank borrowings	79,364	11,897		
Other bank borrowings	322,070	48,281		
Unsecured bank borrowings	71,926	10,782		
Total current borrowings	473,360	70,960		
Non-current borrowings[3][4][5]				
Secured bank borrowings	158,728	23,795		
Other bank borrowings	86,383	12,950		
Unsecured bank borrowings	210,371	31,536		
Notes payable	167,270	25,075		
Notes to be issued[6]	—	—		
Total non-current borrowings	622,752	93,356		
Total equity	1,934,264	289,964		
Total capitalization[6]	2,556,417	383,320		

(1) The 2010 Facility is expected to be repaid on the last day of the current or immediately succeeding Interest Period and the Index-Linked Notes are expected to be redeemed with one business day after receipt of the net proceeds from this offering.

(2) Current borrowings include the current portion of long-term bank borrowings.

(3) Non-current borrowings exclude the current portion of long-term bank borrowings.

(4) Our borrowings do not include any accrual for capital commitments, which was approximately RMB432.9 million (US$64.9 million) as of October 31, 2010. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Capital Commitments and Expenditures."

(5) As of October 31, 2010, our Non-Guarantor Subsidiaries had bank borrowings in the amount of RMB518.5 million (US$77.7 million) and capital commitments of approximately RMB18.8 million (US$2.8 million).

(6) The aggregate principal amount of the Notes to be issued has not taken into account the effect of transaction costs and expenses.

(7) Total capitalization represents total non-current borrowings plus total equity.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data as of and for the years ended December 31, 2007, 2008 and 2009 have been derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers. The selected consolidated financial data as of and for the ten months ended October 31, 2009 and 2010 have been derived from our unaudited condensed consolidated interim financial information as of such dates and for such periods included elsewhere in this Offering Memorandum.

Our consolidated financial statements have been prepared and presented in accordance with HKFRS. HKFRS differs in certain material respects from U.S. GAAP. For a discussion of the differences between HKFRS and U.S. GAAP, see "Summary of Certain Differences Between HKFRS and U.S. GAAP." The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, condensed consolidated interim financial information and the notes thereto included elsewhere in this Offering Memorandum.

Selected Consolidated Statement of Comprehensive Income Data

	For the year ended December 31,				For the ten months ended October 31, (unaudited)		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	US$'000
Revenue	3,254,109	3,737,641	4,088,436	612,895	3,254,338	4,392,674	658,503
Cost of sales	(2,819,358)	(3,278,706)	(3,487,176)	(522,760)	(2,814,523)	(3,489,517)	(523,111)
Gross profit	434,751	458,935	601,260	90,135	439,815	903,157	135,392
Selling and distribution costs	(75,851)	(91,277)	(114,242)	(17,126)	(92,026)	(112,560)	(16,874)
General and administrative expenses	(144,390)	(164,204)	(143,891)	(21,571)	(106,902)	(124,045)	(18,595)
Other income	21,673	66,156	20,670	3,099	10,596	48,289	7,239
Other losses — net	43,109	(4,831)	(1,101)	(165)	(2,125)	(20)	(3)
Operating profit	279,292	264,779	362,696	54,372	249,358	714,821	107,159
Finance income	3,594	3,947	3,985	597	3,101	2,346	352
Finance costs	(23,457)	(3,392)	(49,136)	(7,366)	(40,065)	(39,268)	(5,887)
Finance (costs)/income — net	(19,863)	555	(45,151)	(6,769)	(36,964)	(36,922)	(5,535)
Share of profit/(loss) of an associate	3,178	(16,966)	286	43	(1,744)	1,918	288
Profit before income tax	262,607	248,368	317,831	47,646	210,650	679,817	101,912
Income tax expense	(24,830)	(34,175)	(32,266)	(4,837)	(21,631)	(88,911)	(13,329)
Profit for the year/period	237,777	214,193	285,565	42,809	189,019	590,906	88,583
Total comprehensive income for the year, attributable to equity holders of the Company	237,777	214,193	285,565	42,809	189,019	590,906	88,583

Selected Consolidated Balance Sheet Data

	As of December 31,				As of October 31, (unaudited)	
	2007	2008	2009		2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	US$'000
Non-current assets						
Land use rights	104,622	116,482	154,483	23,158	151,644	22,733
Property, plant and equipment	1,187,543	1,467,211	1,435,545	215,202	1,665,808	249,720
Investment in an associate	43,799	34,572	34,858	5,225	36,776	5,513
Deferred income tax assets	3,607	4,855	2,601	390	10,794	1,618
Total non-current assets	1,339,571	1,623,120	1,627,487	243,975	1,865,022	279,584
Current assets						
Inventories	651,899	690,026	714,655	107,133	1,023,545	153,439
Trade receivables	127,401	78,124	175,146	26,256	167,235	25,070
Bill receivables	237,431	385,989	260,319	39,024	432,987	64,909
Prepayments, deposits and other receivables	78,440	87,351	112,193	16,819	467,048	70,015
Pledged bank deposits	10,773	21,570	15,899	2,383	23,488	3,521
Cash and cash equivalents	199,615	313,012	392,003	58,765	217,970	32,676
Total current assets	1,305,559	1,576,072	1,670,215	250,380	2,332,273	349,630
Current liabilities						
Trade and bills payables	467,502	631,068	510,602	76,544	766,421	114,894
Accruals and other payables	155,637	226,762	282,741	42,386	349,218	52,351
Current income tax liabilities	7,325	8,018	8,798	1,319	12,294	1,843
Borrowings	225,253	522,607	707,869	106,116	473,360	70,961
Derivative financial instruments	—	7,915	305	46	249	37
Total current liabilities	855,717	1,396,370	1,510,315	226,411	1,601,542	240,086
Net current assets	449,842	179,702	159,900	23,969	730,731	109,544
Total assets less current liabilities	1,789,413	1,802,822	1,787,387	267,944	2,595,753	389,128
Non-current liabilities						
Borrowings	702,584	554,267	276,585	41,463	622,752	93,356
Deferred income tax liabilities	11,078	20,173	24,137	3,618	38,737	5,807
Total non-current liabilities	713,662	574,440	300,722	45,081	661,489	99,163
Net assets	1,075,751	1,228,382	1,486,665	222,863	1,934,264	289,965
Capital and reserves attributable to the Company's equity holders						
Share capital	93,990	94,064	94,064	14,101	94,064	14,101
Reserves	981,761	1,134,318	1,392,601	208,762	1,840,200	275,864
Total equity	1,075,751	1,228,382	1,486,665	222,863	1,934,264	289,965

Selected Cash Flow Statement Data

	For the year ended December 31,				For the ten months ended October 31, (unaudited)		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	US$'000
Cash flows from operating activities	173,640	374,490	368,031	55,171	180,831	197,929	29,671
Cash flows from investing activities	(486,341)	(328,164)	(120,715)	(18,096)	(155,000)	(299,839)	(44,949)
Cash flows from financing activities	372,429	67,071	(168,325)	(25,233)	(17,855)	(72,123)	(10,812)
Net increase in cash and cash equivalents	59,728	113,397	78,991	11,842	7,976	(174,033)	(26,090)
Cash and cash equivalents at beginning of the period	139,887	199,615	313,012	46,923	313,012	392,003	58,765
Cash and cash equivalents at end of the period	199,615	313,012	392,003	58,765	320,988	217,970	32,675

Selected Other Financial Data (Non-GAAP)

	For the year ended December 31, (unaudited)				For the ten months ended October 31, (unaudited)		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	US$'000
EBITDA(1)	396,498	408,988	493,187	73,933	353,872	852,020	127,726
EBITDA margin(2)	12.2%	10.9%	12.1%	12.1%	10.9%	19.4%	19.4%
Total debt/EBITDA(1)	2.3x	2.6x	2.0x	2.0x	—	—	—

(1) EBITDA for any year/period consists of profit for the year/period before interest expenses, income tax expense, depreciation and amortization. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt, and we have included it because we believe that it is a useful supplement to the cash flow data as a measure of our performance and ability to generate cash flow from operations to cover debt service and taxes. However, EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, its respective components such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies and investors should not compare our EBITDA to the EBITDA presented by other companies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a reconciliation of our profit for the year/period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements as of and for the fiscal years ended December 31, 2007, 2008 and 2009, and our unaudited condensed consolidated interim financial statements for the ten months ended October 31, 2009 and 2010, and in each case, the related notes thereto included elsewhere in this Offering Memorandum. Some of the information in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. Our consolidated financial statements have been prepared and presented in accordance with HKFRS issued by the HKICPA. See information regarding "Forward-Looking Statements" and "Risk Factors" for a discussion of important factors to be evaluated in connection with a prospective purchase of Notes.

Overview

We believe that we are one of the leading manufacturers and suppliers of core-spun yarn in the PRC based on total sales and production capacity. We recorded total sales of RMB4,392.7 million (US$658.5 million) and had a total production capacity of over 800,000 spindles (producing approximately 200,000 tonnes of yarn per year) and over 900 air-jet looms for the ten months ended and as of October 31, 2010. We have been honored as one of the top 20 most competitive enterprises in the PRC's cotton spinning and yarn dyeing industry for seven consecutive years from 2004 to 2010, according to the Statistics Center of the China Textile Industry Association and CCTIA. While approximately 88% of our sales were to customers in the PRC for the ten months ended October 31, 2010, we have production bases in both the PRC and Vietnam.

We manufacture over 1,200 types of yarn products and over 2,700 types of fabric products. We focus on and specialize in the manufacturing and sale of high value-added stretchable core-spun yarn and other yarns, including denim yarn, which accounted for 65.7% and 72.2% and 78.2% and 79.3% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

We currently have 11 production bases located in Xuzhou, Taizhou, Changzhou and Nantong of Jiangsu Province and Pujiang of Zhejiang Province as well as a production base in Dong Nai, Vietnam. We believe that we are the only PRC core-spun yarn manufacturer among our major competitors to have operations in Vietnam or outside greater China. This has provided us with relative cost advantages over our PRC competitors with production facilities solely in the PRC as we are able to import cheaper cotton from overseas to Vietnam which is not subject to import quotas and have lower labor costs and other non-raw material production costs and tax incentives in Vietnam. As of October 31, 2010, our production bases cover an overall area of approximately 1,420,000 square meters, of which workshops comprise approximately 695,000 square meters, with approximately 13,600 employees. Our yarn production facilities operate 24 hours a day in three shifts except during the Chinese New Year holiday and when production facilities are under repair or routine maintenance. We also have a research and development center in Changzhou which focuses on product development to further enhance and differentiate our product mix by further development of differentiated products. Our sales center is located in Shanghai.

We currently have over 1,600 customers in China and overseas, and a sales network extending across the PRC, Japan, Turkey, Brazil, South Korea, Hong Kong and Vietnam. As of October 31, 2010, we had approximately 1,400 PRC customers, many of whom are located in southern and eastern China where many textile and garment companies are located, and over 200 overseas customers.

We have expanded our production capacity and introduced new equipment to enhance our capability in producing differentiated products. In November 2007 and November 2008, we began full commercial production in respect of Phase I and Phase II of our Vietnam production facility, respectively, which increased our production capacity by approximately 70,000 spindles and 140,000 spindles, respectively. In addition, in July 2010, we completed Phase II of our expansion of our production base in Xuzhou, China, which increased our production capacity by approximately 70,000 spindles. This has brought our current production capacity to a total of approximately 800,000 spindles.

In recent years, we have made substantial efforts to exploit the PRC domestic denim yarn market, where we believe there is strong demand and potential. We have been able to utilize the additional production capacity in our plant in Vietnam so as to capture a larger market share in the denim yarn market, thereby strengthening our overall competitiveness and profitability.

Starting in 2008, we began restructuring our grey fabrics business, which entailed retiring, relocating or modifying our air-jet looms. The restructuring, which we completed in 2010, has contributed to a reduction in our inventory level of grey fabrics and helped us with the repositioning of our products and the stabilization of our grey fabrics business.

The PRC textile industry has experienced several challenges in the past couple of years, facing increasing raw material, labor and utility costs in the beginning of 2008, which was followed by the global financial crisis in the second half of 2008 and continuing through to the first half of 2009. Amid the unfavorable market environment caused by the global financial crisis and continuing increased competition in the textile industry both domestically and abroad, we continue to enhance our customer base of yarn, particularly the high value-added stretchable core-spun yarn products. While late 2008 through early 2009 was the most difficult time for our operations as demand and selling prices of products dropped to historic lows due to the onset of the financial crisis, we have benefited from the competitive strengths of our plant in Vietnam in terms of low production costs. Since the second quarter of 2009, demand for our products have gradually resumed and selling prices of our products have gradually recovered.

Through cooperation with Dow Chemical and Lenzing Fibers, we have introduced a number of new products in recent years. In 2008 and 2009, we applied second generation olefin-based XLA fiber technology invented by Dow Chemical to the production of stretch yarns for high-end yarn-dyed fabrics, denim fabrics, casual wear fabrics and uniform fabrics. We also commenced production of different high-end non-stretchable core-spun yarns, high-end denim yarn and high-end knitted yarns using cellulose-based Tencel fiber, modal fiber and viscose fiber materials supplied by Lenzing Fibers. These products have received positive market response and success. We also expect to sign a trademark license agreement with Invista in 2011 under which we will be granted a license to use certain of their trademarks for the sale in the PRC of yarn products we manufacture in the PRC and for the sale of fabrics worldwide which we manufacture in the PRC.

Despite the global financial crisis, our revenue increased 14.9% from RMB3,254.1 million for the year ended December 31, 2007 to RMB3,737.6 million for the year ended December 31, 2008, and further increased 9.4% to RMB4,088.4 million (US$612.9 million) for the year ended December 31, 2009 as compared to RMB3,737.6 million for the year ended December 31, 2008. Our revenue increased 35.0% to RMB4,392.7 million (US$658.5 million) for the ten months ended October 31, 2010, as compared to RMB3,254.3 million for the ten months ended October 31, 2009. Our profit for the year decreased by 9.9% from RMB237.8 million for the year ended December 31, 2007 to RMB214.2 million for the year ended December 31, 2008 but increased by 33.3% to RMB285.6 million for the year ended December 31, 2009. Our profit for the period increased by 212.6% from RMB189.0 million for the ten months ended October 31, 2009 to RMB590.9 million for the ten months ended October 31, 2010.

Factors Affecting Our Business, Results of Operations, Financial Condition and Prospects

Our business, results of operations and financial condition have been, and we expect will continue to be, affected by a number of factors and risks, many of which are beyond our control. Please refer to the section entitled "Risk Factors" in this Offering Memorandum. The key factors affecting our business, results of operations and financial condition include the following:

Cotton prices and the price differential between U.S. cotton and PRC domestic cotton

Cotton is the primary raw material which we use in the production of our products. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, the cost of cotton accounted for 31.6%, 39.9%, 43.4% and 45.4%, respectively, of our cost of sales. To the extent we cannot pass on some or all of any increases in the cost of cotton to our customers, any such increases could have a material effect on our business and results of operations.

We source the cotton we use at our PRC production bases from three categories: (i) PRC domestic cotton purchased from PRC suppliers primarily with reference to the PRC cotton spot market and future prices; (ii) cotton imported from overseas under our allotted quota; and (iii) cotton imported from overseas purchased from PRC cotton traders. The cotton imported from overseas are subject to PRC import duty. The cotton we purchase from PRC cotton traders are subject to an additional price mark-up, typically in an amount that equates the price of such cotton to the price of PRC domestic cotton at the time. We source the cotton we use at our Vietnam production base from cotton purchased from overseas suppliers primarily with reference to the U.S. cotton future prices. For the year ended December 31, 2009 and the ten months ended October 31, 2010, we imported 100% of our cotton for our Vietnam production facilities from sources outside Vietnam and the PRC, mostly from the United States. For the same periods, we sourced 24.1% and 43.3% of the cotton we used for our PRC cotton production bases from cotton imported from overseas under our allotted quota, with the remainder from a combination of PRC domestic cotton purchased from PRC suppliers and cotton imported from overseas purchased from PRC cotton traders. We generally adjust the proportion of our cotton purchased among the categories according to the prices of PRC domestic cotton and U.S. cotton and also based on the mix of PRC domestic cotton and overseas cotton we need to maintain our product quality.

The cost of cotton and its availability generally have varied in the past several years as a result of volatility in crop production and demand. United States agricultural programs affect crop production, and thus the cost and supply of cotton in the United States, and the policies of other governments, in particular the PRC, have an impact on worldwide prices and supplies as well. Cotton prices have generally increased from the beginning of 2009 to October 31, 2010. Fluctuations in cotton prices have affected and are expected to continue to affect our results of operations.

Because of a recent shortage in worldwide cotton supplies, in October 2010, we have also entered into a series of advance cotton purchase contracts with certain overseas and domestic cotton suppliers, including one of our largest overseas cotton suppliers, to secure our supply of cotton in amounts that we have estimated are sufficient for our needs through June 2011 based on projected production capacity. The contracts specify the quantity of cotton guaranteed by the relevant supplier at a predetermined price. Historically we have kept approximately 30 to 60 days of cotton inventory. With our entry into the advance cotton purchase contracts, we have maintained approximately 30 days of cotton inventory.

We enjoy a cost advantage from our Vietnam operations, which is largely derived from our ability to import U.S. cotton into Vietnam at a lower cost for use at our Vietnam production facility. Cotton spot prices in China have been consistently higher than those of the United States due to cotton import quotas imposed by the PRC. No custom duties are currently imposed by Vietnam on the import of cotton from the United States. As a result, the price of U.S. cotton that we purchase for our Vietnam operations has generally been lower than the price of cotton sourced from the PRC, which is regulated by the PRC government, and overseas cotton imported into the PRC, which are subject to subject tariff quota controls and tariffs imposed by the PRC. See "Laws and Regulations Relating to the Textile Industry in the PRC—Textile import policies." Moreover, no custom duties are currently imposed on the export of our yarn products from Vietnam to the PRC, where most of our customers are. Thus, we are able to manufacture our yarn using cotton imported at cheaper prices from the United States into Vietnam and export such yarn into the PRC. If Vietnam were to re-introduce import quotas or impose an import duty on U.S. cotton or the price of U.S. cotton were to increase relative to the price of PRC cotton, our competitive advantage would be reduced. Any change in custom duties, such as an import duty on imported cotton by Vietnam or a duty imposed on the export of yarn from Vietnam into PRC, could materially affect our financial condition.

Production capacity and capacity utilization

Our results of operations are directly affected by our sales volume, which in turn is a function of our production capacity and market demand. As of October 31, 2010, we had production capacity of over 800,000 spindles. For the period from January 1, 2007 to October 31, 2010, we were able to sell all the products produced by our production facilities while operating at full utilization. To the extent domestic demand for core-spun yarn and other yarns remains strong, our sales volume will be driven by our production capacity and our ability to fully utilize such capacity.

In recent years, we have been increasing our production capacity. In late 2006, we launched our yarn capacity expansion plan in Vietnam. In November 2007, we began full commercial production in respect of Phase I of our Vietnam project, which increased our production capacity by approximately 70,000 spindles. In November 2008, we began full commercial production in respect of Phase II of our Vietnam expansion project, which increased our production capacity by approximately 140,000 spindles. In July 2010, we began full commercial production of Phase II of our Xuzhou expansion project, which increased our production capacity by approximately 70,000 spindles. We are in the process of completing Phase III of our Vietnam production expansion project, which is expected to increase our production capacity by an additional 190,000 spindles and which is expected to begin full commercial production in the first quarter of 2011.

As the textile manufacturing industry is a capital-intensive industry, it is essential for production facilities to maintain a high utilization rate to reduce the per unit cost of products and remain competitive. Our yarn production facilities are in operation continuously 24 hours a day with three shifts on average, except during the Chinese New Year holiday and for repair and routine maintenance.

Our production capacity, along with our rate of utilization of such capacity, will continue to have a significant impact on our results of operations.

Market demand

During the period from January 1, 2007 to October 31, 2010, more than 85% of our revenue was derived from sales made in the PRC. Domestic demand for our yarn products in the PRC is primarily affected by domestic economic conditions, growth of the downstream cotton textile industry and the apparel retail industry. During this period, growth in China's economy and growth in Chinese consumer spending have generally led to increasing demand for garments, which in turn has led to increasing demand for fabrics and yarn. While the global financial crisis that began in 2008 adversely affected global and domestic demand for cotton textile products from the third quarter of 2008 through the first several months of 2009, the PRC economy and demand for cotton textile products gradually recovered.

We sell our stretchable core-spun yarn and other yarns to third party customers, including fabric traders, fabric mills, printing and dyeing factories and garment manufacturers. We sell our fabrics to fabric traders, printing and dyeing factories and garment manufacturers.

The following table sets forth the sales volume of our products for the periods indicated:

	Year Ended December 31,			Ten Months Ended October 31,
Sales volume by products	**2007**	**2008**	**2009**	**2010**
Yarn (*in tonnes*)				
Stretchable core-spun yarn	70,532	90,434	111,193	92,510
Other yarns	24,355	32,963	60,585	59,726
Total	94,887	123,397	171,778	152,236
Grey fabrics (*in thousand meters*)				
Stretchable grey fabrics	77,387	64,059	61,232	57,501
Other grey fabrics	35,429	34,579	32,036	22,322
Total	112,816	98,638	93,268	79,823
Garment fabrics (*in thousand meters*)	8,311	10,109	9,417	7,936

Changes in product mix

The prices and gross profit margins of our products vary by the types of products produced and the materials used. Our results of operations are therefore affected by changes in our product mix.

We strive to optimize our product mix by adjusting the proportion of production and sales volume of different yarns according to market conditions, including the profitability of each such product from time to time, and to maintain our market position in the manufacture and sale of stretchable core-spun yarn. For example, the gross margin of all our yarns produced at our Vietnam facilities is higher than the same yarn produced at our PRC facilities. As we produced more of our other yarns at our Vietnam production facilities than at our PRC facilities, our gross margin of other yarns has increased at a faster rate than stretchable core-spun yarn for the period from January 1, 2007 to October 31, 2010. While we have increased the sales of other yarns, mainly denim yarn, over this period, we have also continued to maintain our growth in sales of stretchable core-spun yarn. We will also continue to concentrate on phasing out products generating lower profit margins such as grey fabrics in favor of products with higher profit margins such as the denim yarn we produce from our Vietnam production base. We intend to further expand our product portfolio and improve our ability to optimize our product mix. Planned new products include yarn and fabrics using the "FREEF!T™" fiber manufactured by Invista if we execute the Invista licensing agreement as planned, and other specialized fibers developed by other fiber manufacturers.

Economic conditions and regulatory environment in the PRC and Vietnam

Our results of operations are subject to political, economic, fiscal, legal and social developments in the PRC and Vietnam, including:

- the regulatory and fiscal environment of the PRC, particularly with respect to textile industry policy and textile export policy;
- the political and economic policies of the PRC government and the Vietnam government in general; and
- other and variables relating to the overall state of economy of the PRC and Vietnam and the fiscal and other economic policies of the PRC central and local governments as a whole.

Access to and cost of financing

Borrowings from banks and other parties are an important source of funding for our property development. As of October 31, 2010, our outstanding bank and other borrowings amounted to RMB1,096.1 million (US$164.3 million) with available unused bank facilities of RMB159.0 million (US$23.8 million). Interest on bank and other borrowings was RMB54.1 million for the ten months ended October 31, 2010. See "—Indebtedness" in this section for more information regarding the structure of our borrowings.

A substantial portion of our borrowings are onshore loans from commercial banks in the PRC, the interest rates of which are linked to the benchmark lending rates published by the PBOC. As such, any increase in such benchmark lending rates will increase the interest costs for financing our developments. An increase in our financing costs would negatively affect our profitability and results of operations. Any unavailability of financing would affect our ability to engage in our project development activities, which would negatively affect our results of operations.

Taxes

Some of our PRC subsidiaries and our Vietnam subsidiary benefit from certain preferential tax treatments under PRC laws and Vietam laws, respectively.

The following table indicates the preferential tax rates and remaining years for which our PRC subsidiaries are entitled to preferential tax rates as of October 31, 2010:

	Applicable EIT Tax Rate			
	2010	**2011**	**2012**	**2013**
	(in percentages)			
Xuzhou Texhong Times	12.5	25.0	25.0	25.0
Taizhou Texhong Yintai	12.5	12.5	25.0	25.0
Xuzhou Texhong Yinlian	12.5	12.5	12.5	25.0
Changzhou Texhong Textile	12.5	12.5	25.0	25.0
Texhong China Investment	22.0	24.0	25.0	25.0

On March 16, 2007, the PRC Enterprise Income Tax Law (the "EIT Law") was enacted and became effective on January 1, 2008. The EIT Law applies to all of our PRC subsidiaries and adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and eliminates most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. Under the EIT Law, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 (i) in the case of preferential tax rates, continue to enjoy the tax rates, which will be gradually increased to the new tax rate within five years from January 1, 2008 or (ii) in the case of preferential tax exemption or reduction for a specified term, continue to enjoy the preferential tax holiday until the expiration of such term.

As approved by the relevant authority in Vietnam, provided that we regularly employ at least 5,000 employees in Vietnam, our Vietnam subsidiary is entitled to (i) corporate income tax incentive at the tax rate of 10% of taxable income for a period of 15 years from 2007, the year in which it began operations and (ii) exemption from corporate income taxes for four years commencing from its first year of profitability, and upon the expiration of such exemption period, a tax reduction of 50% of the applicable corporate income tax rate (10% or 25%, as the case may be) for nine years thereafter. Since its establishment in 2006, our Vietnam subsidiary has not in any year employed 5,000 workers or more.

Our Vietnam subsidiary is entitled to an alternative tax incentive based on its location in the Nhon Trach Industrial Zone. We qualify for this tax incentive as our Vietnam production is based in this zone. This incentive provides for a corporate income tax rate of 15% for 12 years which includes three years of tax exemption from its first profitable year and a 50% reduction of the applicable corporate tax rate (15% or 25%, as the case may be) for the subsequent seven years.

While we have not met the 5,000 employees requirement under the tax incentive based on number of employees, we qualified for the tax incentive based on location for the years 2008 to 2010.

Our effective income tax rate (calculated as income tax expense divided by profit before income tax) was 9.5%, 13.8% and 10.2% for the years ended December 31, 2007, 2008 and 2009, respectively. Our effective income tax rate was 10.3% and 13.1% for the ten months ended October 31, 2009 and 2010, respectively.

Our results of operations and financial condition will be affected when the preferential tax rates enjoyed by our PRC subsidiaries expire and by changes to tax incentives which we are entitled to in Vietnam.

Critical Accounting Policies

Preparation of individual and consolidated financial statements of the Company and its subsidiaries requires us to make estimates and judgments in applying certain critical accounting policies which have significant impact on our combined results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances, and results may differ from these estimates under different assumptions and conditions. Our management has identified below the accounting policies that are most critical to our consolidated financial statements.

Estimated useful lives and residual values of property, plant and equipment

Our management determines the estimated useful lives and residual values and consequently the related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors' actions in response to severe industry cycles. Our 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. Actual economic lives and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore in changes in depreciation expenses in future periods.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. It could change significantly as a result of technical innovations, changes in customer tastes and our competitors' actions in response to severe industry cycle. Our management reassesses these estimates at each balance sheet date.

Impairment of trade, bill and other receivables

Our management determines the provision for impairment of trade, bill and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgments and estimates. Our management reassesses the provision at each balance sheet date.

Provisions for social funds

Our management determines the provision for social funds in Mainland China based on the employee's basic salary (subject to a cap) at rates as stipulated by the relevant municipal governments. The ultimate payable amount might be different from management estimates.

Income taxes and deferred income tax

We are subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when our management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

Results of Operations

The following table sets forth a breakdown of our revenue, cost of sales, gross profit and operating profit for the periods indicated, with each item expressed as a percentage of our total revenue. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,							For the ten months ended October 31, (unaudited)				
	2007		2008		2009			2009		2010		
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%	RMB'000	%	RMB'000	US$'000	%
Revenue	3,254,109	100	3,737,641	100	4,088,436	612,895	100	3,254,338	100	4,392,674	658,503	100
Cost of sales	(2,819,358)	86.6	(3,278,706)	87.7	(3,487,176)	(522,760)	85.3	(2,814,523)	86.5	(3,489,517)	(523,111)	79.4
Gross profit	434,751	13.4	458,935	12.3	601,260	90,135	14.7	439,815	13.5	903,157	135,392	20.6
Selling and distribution costs	(75,851)	2.3	(91,277)	2.4	(114,242)	(17,126)	2.8	(92,026)	2.8	(112,560)	(16,874)	2.6
General and administrative expenses	(144,390)	4.4	(164,204)	4.4	(143,891)	(21,571)	3.5	(106,902)	3.3	(124,045)	(18,595)	2.8
Other income	21,673	0.7	66,156	1.8	20,670	3,099	0.5	10,596	0.3	48,289	7,239	1.1
Other losses — net	43,109	1.3	(4,831)	0.1	(1,101)	(165)	0.0	(2,125)	0.1	(20)	(3)	0.0
Operating profit	279,292	8.6	264,779	7.1	362,696	54,372	8.9	249,358	7.7	714,821	107,159	16.3
Finance income	3,594	0.1	3,947	0.1	3,985	597	0.1	3,101	0.1	2,346	352	0.1
Finance costs	(23,457)	0.7	(3,392)	0.1	(49,136)	(7,366)	1.2	(40,065)	1.2	(39,268)	(5,887)	0.9
Finance (costs)/income — net	(19,863)	0.6	555	0.0	(45,151)	(6,769)	1.1	(36,964)	1.1	(36,922)	(5,535)	0.8
Share of profit/(loss) of an associate	3,178	0.1	(16,966)	0.5	286	43	0.0	(1,744)	0.1	1,918	288	0.0
Profit before income tax	262,607	8.1	248,368	6.6	317,831	47,646	7.8	210,650	6.5	679,817	101,912	15.5
Income tax expense	(24,830)	0.8	(34,175)	0.9	(32,266)	(4,837)	0.8	(21,631)	0.7	(88,911)	(13,329)	2.0
Profit for the year/period	237,777	7.3	214,193	5.7	285,565	42,809	7.0	189,019	5.8	590,906	88,583	13.5
Total comprehensive income for the year/period, attributable to equity holders of the Company	237,777	7.3	214,193	5.7	285,565	42,809	7.0	189,019	5.8	590,906	88,583	13.5

Certain Income Statement Items

Revenue

Our revenue is primarily generated from manufacturing and selling textile products. We produce over 1,200 different types of yarns annually. The contribution of stretchable core-spun yarn and other yarns to our revenue has increased significantly throughout the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010 and such revenue accounted for 65.7%, 72.2%, 78.2% and 79.3% of our revenue for the corresponding periods, respectively. The remaining revenue was mainly generated from sale of grey fabrics and garment fabrics. We increased our sales of stretchable core-spun yarn products for the years ended December 31, 2007, 2008 and 2009 and the months ended October 31, 2010 primarily to capitalize on the demand created by the growth in the China stretchable core-spun yarn market and to maintain our market position, which accounted for revenue of RMB1,648.0 million, RMB2,036.9 million, RMB2,178.8 million and RMB2,289.3 million for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010. The percentage of total sales attributable to stretchable core-spun yarn was 50.6%, 54.5%, 53.3% and 52.1% for the same periods, respectively, which did not increase proportionately with revenue for the same periods. This was principally due to the larger percentage increases of our sales of other yarns over the same periods, driven primarily by sales of denim yarn, which accounted for revenue of RMB490.2 million, RMB662.0 million, RMB1,018.7 million and RMB1,192.0 million and 15.1%, 17.7%, 24.9% and 27.2% of our total revenue for same periods. For the years ended December 31, 2007, 2008 and 2009, the increases in volume of sales of our stretchable core-spun yarn and other yarns were offset by decreases in the average selling prices of such products over the same periods. The decrease in average selling prices of our stretchable core-spun yarn and other yarns during these same periods was principally due to the decrease in average cotton prices, which factors in our pricing. See "—Factors Affecting Our Business, Results of Operations, Financial Condition and Prospects—Cotton Prices and the price differential between U.S. cotton and PRC domestic cotton" in this section.

Set out below is a breakdown of our revenue by principal products for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,							For the ten months ended October 31,				
	2007		2008		2009			2009		2010		
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%	RMB'000	%	RMB'000	US$'000	%
Revenue by Products												
Stretchable core-spun yarn	1,647,966	50.6	2,036,937	54.5	2,178,768	326,618	53.3	1,709,317	52.5	2,289,323	343,191	52.1
Other yarns	490,182	15.1	662,034	17.7	1,018,741	152,719	24.9	829,490	25.5	1,192,008	178,693	27.2
Subtotal	2,138,148	65.7	2,698,971	72.2	3,197,509	479,337	78.2	2,538,807	78.0	3,481,331	521,884	79.3
Stretchable grey fabrics	730,797	22.5	616,064	16.5	524,935	78,693	12.9	417,032	12.8	598,779	89,763	13.6
Other grey fabrics	264,531	8.1	293,711	7.9	245,939	36,869	6.0	205,308	6.3	195,541	29,313	4.4
Subtotal	995,329	30.6	909,775	24.4	770,874	115,562	18.9	622,340	19.1	794,320	119,076	18.0
Garment fabrics	120,632	3.7	128,895	3.4	120,053	17,997	2.9	93,191	2.9	117,023	17,543	2.7
Total	3,254,109	100.0	3,737,641	100.0	4,088,436	612,896	100.0	3,254,338	100.0	4,392,674	658,503	100.0

Most of our products are sold domestically in the PRC. Our customers include fabric traders, fabric mills, printing and dyeing factories and garment manufacturers located in about 18 provinces and municipalities in the PRC. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, domestic sales accounted for approximately 88.7%, 87.0%, 89.5% and 88.3%, respectively, of our total sales while the remaining amounts represented exports to overseas countries including Japan, Turkey, Brazil, Hong Kong, South Korea, and Vietnam.

Set out below is a breakdown of our sales by geographical locations for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,							For the ten months ended October 31,				
	2007		2008		2009			2009		2010		
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%	RMB'000	%	RMB'000	US$'000	%
Revenue by Location												
Jiangsu	1,099,599	33.8	1,365,801	36.5	1,192,568	178,777	29.2	981,387	30.2	1,163,926	174,483	26.5
Zhejiang	1,127,594	34.7	1,091,218	29.2	1,326,076	198,791	32.4	1,044,110	32.1	1,409,905	211,358	32.1
Guangdong	309,357	9.5	332,790	8.9	651,197	97,620	15.9	496,825	15.3	772,443	115,796	17.6
Shandong	216,575	6.6	280,873	7.5	190,400	28,543	4.7	150,464	4.6	230,605	34,570	5.2
Other provinces	132,582	4.1	181,451	4.9	299,309	44,869	7.3	242,895	7.4	302,314	45,320	6.9
Domestic Subtotal	2,885,707	88.7	3,252,133	87.0	3,659,550	548,600	89.5	2,915,681	89.6	3,879,193	581,527	88.3
Export	368,402	11.3	485,508	13.0	428,886	64,294	10.5	338,657	10.4	513,481	76,975	11.7
Total	3,254,109	100.0	3,737,641	100.0	4,088,436	612,894	100.0	3,254,338	100.0	4,392,674	658,502	100.0

Our revenue is a direct function of the volume of products sold and their respective unit selling prices. Set out below is an analysis of the average unit selling prices of our yarns, grey fabrics and garment fabrics for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,				For the ten months ended October 31,		
	2007	2008	2009		2009	2010	
	RMB/ tonne or meter	RMB/ tonne or meter	RMB/ tonne or meter	US$/ tonne or meter	RMB/ tonne or meter	RMB/ tonne or meter	US$/ tonne or meter
Average Selling Price							
Yarn	22,534	21,872	18,614	2,790	18,189	22,868	3,428
Stretchable core-spun yarn	23,365	22,524	19,594	2,937	19,252	24,747	3,710
Other yarns	20,127	20,084	16,815	2,521	16,331	19,958	2,992
Grey fabrics	8.8	9.2	8.3	1.2	8.2	10.0	1.5
Stretchable grey fabrics	9.4	9.6	8.6	1.3	8.5	10.4	1.6
Other grey fabrics	7.5	8.5	7.7	1.2	7.7	8.8	1.3
Garment fabrics	14.5	12.8	12.7	1.9	12.8	14.7	2.2

The volume of products sold increased substantially for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, although unit product prices have fluctuated. We believe the fluctuation of product unit selling prices over the same periods was primarily caused by fluctuations in cotton prices, and supply and demand for our products.

Cost of sales

Our cost of sales for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010 mainly represented costs of raw material and consumables, employment costs, utilities, depreciation and amortization and were RMB2,819.4 million, RMB3,278.7 million, RMB3,487.1 million and RMB3,489.5 million for such periods, respectively.

The cost of raw materials is the most significant component of the cost of sales, and is one of the principal factors affecting our pricing. Cost of raw materials accounted for 84.1%, 84.3%, 83.3% and 84.3% of our overall cost of sales for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. The raw materials purchased by us from independent suppliers included yarn, cotton, spandex, rayon and polyester. Set out below is the percentage of the major cost components of our products as a percentage of the total cost of raw materials for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,			For the ten Months ended October 31,	
	2007	2008	2009	2009	2010
			(percentages)		
Yarn	32.4	25.3	21.1	21.3	21.9
Cotton	37.6	47.4	52.1	52.4	53.8
Spandex, rayon and polyester	20.8	18.7	19.6	19.9	17.9
Other raw materials	9.2	8.6	7.2	6.4	6.4
Total	100.0	100.0	100.0	100.0	100.0

Some of our stretchable core-spun yarn and other yarns are used internally in the production of our grey fabrics. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, about 9.1%, 8.4%, 4.9% and 3.6% of the yarn we produced, respectively, were used in the production of our grey fabrics products.

Apart from yarn and grey fabrics, we also sell garment fabrics. Garment fabrics are fabrics that have been bleached, dyed and finished. We source most of the grey fabrics we use for our garment fabrics from third parties. Since we do not have printing and dyeing facilities or finishing capabilities, these procedures are outsourced to printing and dyeing plants. Our outsourcing expenses amounted to approximately RMB9.6 million, RMB12.9 million, RMB14.7 million (US$2.2 million) and RMB13.9 million (US$2.1 million) for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

Gross profit and gross profit margin

Our actual production volume is bound by our production capacity and the average thread count of the different yarns we produce. In order to maintain our market position in the stretchable core-spun yarn market and maximize profit, we plan our production to balance the production of stretchable core-spun yarn against production of other lower thread count yarns, such as denim yarns. Depending on the specifications of each product and demand in the market, different types of product have different gross profit margins. Our stretchable core-spun yarn generally derives a higher gross profit margin than common yarn with the same thread count, but the output quantum of stretchable core-spun yarn produced by each spindle is lower than the output volume of lower thread count yarn produced by the same spindle. In order to maintain our market position in the stretchable core-spun yarn market and maximize profit, we increased production of stretchable products for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010. Fluctuations in the gross profit margin for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010 mainly resulted from changes in each product's unit price and cost of sales. The increase in gross profit margin since 2009 was primarily due to our production plant in Vietnam and from the rebound in demand and selling prices after the global financial crisis.

Set out below is an analysis of the gross margin of our yarn, grey fabrics and garment fabrics for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,			For the ten months ended October 31,	
	2007	**2008**	**2009**	**2009**	**2010**
			(percentages)		
Yarn	15.5	13.7	16.2	14.8	23.1
Stretchable core-spun yarn	15.2	14.8	16.2	14.7	23.9
Other yarns	16.4	10.4	16.3	14.9	21.6
Grey fabrics	8.3	7.7	8.1	7.8	10.1
Spandex stretchable grey fabrics	9.1	8.3	9.4	9.2	10.1
Other grey fabrics	6.1	6.3	5.2	5.1	10.0
Garment fabrics	17.5	14.7	16.6	16.7	16.9

Selling and distribution costs

Our selling and distribution costs mainly comprised transportation charges, salary and commission of sales personnel, marketing expenses and advertising expenses. Selling and distribution costs varied directly with our sales and represented 2.3%, 2.4%, 2.8% and 2.6% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

General and administrative expenses

General and administrative expenses mainly included salary expenses, traveling expenses, office expenses, marketing expenses, contributions to the employee benefit scheme, foreign exchange gain or loss on operating activities and depreciation expenses. As the scale of our operation increased over the past few years, we incurred more general and administrative expenses to support our business for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010.

Salary, including contributions to the employee benefit scheme, was the most significant component of our general and administrative expenses, and was approximately 2.3%, 2.1%, 1.4% and 1.3% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

Expenses by nature

Set out below is a breakdown of our expenses by nature included in cost of sales, selling and distribution costs and general and administrative costs for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2009 and 2010:

	For the year ended December 31,				For the ten months ended October 31,		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	US$'000
Changes in inventories of finished goods and work in progress	(68,582)	(59,399)	28,966	4,342	44,498	(96,922)	(14,530)
Raw materials and consumables used	2,440,525	2,823,298	2,877,017	431,292	2,290,552	3,038,121	455,443
Employment costs	276,040	302,138	313,160	46,946	250,601	285,233	42,759
Depreciation and amortization	73,609	96,314	123,113	18,456	100,026	118,126	17,708
Loss on disposal of property, plant and equipment and land use rights	312	2,194	2,714	407	(4,277)	(3,349)	(502)
Office expenses	30,206	20,731	20,239	3,034	8,920	18,052	2,706
Utilities	167,565	193,437	226,147	33,902	185,783	220,780	33,096
Transportation	57,265	67,387	90,114	13,509	64,899	70,186	10,522
Auditor's remuneration	3,820	3,586	4,097	614	3,626	3,544	531
Lease rental expense of buildings and machinery	8,634	12,751	11,903	1,784	10,833	10,892	1,633
(Reversal of)/provision for impairment of trade receivables	717	2,612	(4,294)	(644)	(2,598)	(581)	(87)
(Reversal of)/provision for inventory obsolescence	(3,781)	6,843	(9,393)	(1,408)	(4,703)	(264)	(39)
Other expenses	53,269	62,295	61,526	9,223	65,291	62,304	9,340
Total cost of sales, selling and distribution costs and general and administrative costs	3,039,599	3,534,187	3,745,309	561,457	3,013,451	3,726,122	558,580

Other income

Our other income mainly represented discretionary subsidy income from the government, government grants relating to the relocation of a subsidiary, consulting income, and re-investment incentives based on income tax paid and rental income from leasing of idle production facilities. The discretionary subsidies were financial subsidies granted by local financial bureaus to encourage investments in specific regions and were granted to us on a fully discretionary basis for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010.

Other losses/(gains)—net

Our other losses mainly consist of net foreign exchange losses and losses recognized on interest rate swaps and forward foreign exchange contracts partially offset by the cancellation of the outstanding indebtedness of Yizheng Chemical Fiber Changzhou Daming Co. owed to a third party after the company was acquired by Texhong Textile (HK) Holdings Limited.

Finance costs

Our finance costs mainly comprise interest on the borrowings and related fees and charges. See "—Indebtedness" below.

Share of profit/(loss) of an associated company

Our share of profit/loss of an associated company represents our share of Nantong Textile's profit/loss for the respective periods.

Ten Months Ended October 31, 2010 Compared to Ten Months Ended October 31, 2009

Revenue

Revenue increased by 35.0% to RMB4,392.7 million for the ten months ended October 31, 2010 from RMB3,254.3 million for the ten months ended October 31, 2009. The increase in our revenue was principally due to an increase in sales volume of our yarn products and to an increase in the unit price of our major products. Our revenue for our yarns as a percentage of total revenue increased from 78.0% for the ten months ended October 31, 2009 to 79.3% for the ten months ended October 31, 2010. This increase reflected our continuing focus on our yarn products as compared to grey fabrics and garment fabrics. Our revenue for other yarn as a percentage of total revenue increased with a corresponding decrease in our revenue for stretchable core-spun yarn as a percentage of total revenue, driven by our sales of denim yarn and our gain in share of the domestic denim yarn market, which was a result of our increased production capability in Vietnam, where we produce a substantial amount of our denim yarn.

Cost of Sales

Our cost of sales increased by 24.0% to RMB3,489.5 million for the ten months ended October 31, 2010 from RMB2,814.5 million for the ten months ended October 31, 2009. This increase was primarily attributable to the increase in our sales volume and the cost of raw materials, particularly cotton.

Gross profit

As a result of the foregoing, our gross profit increased by 105.3% to RMB903.2 million for the ten months ended October 31, 2010 from RMB439.8 million for the ten months ended October 31, 2009. Gross profit margin for the ten months ended October 31, 2010 increased to approximately 20.6% from approximately 13.5% in the corresponding period in 2009.

Selling and distribution costs

Our selling and distribution costs increased by 22.3% to RMB112.6 million for the ten months ended October 31, 2010 from RMB92.0 million for the ten months ended October 31, 2009. The increase in selling and distribution costs was mainly due to an increase in salary expenses and travelling expenses associated with the increase in business volume and market expansion.

General and administrative expenses

Our general and administrative expenses increased by 16.0% to RMB124.0 million for the ten months period ended October 31, 2010 from RMB106.9 million for the ten months ended October 31, 2009. This increase was mainly due to the increase in salary expense as a result of higher wages.

Other income

Our other income increased by 355.7% to RMB48.3 million for the ten months ended October 31, 2010 from RMB10.6 million for the ten months ended October 31, 2009. The increase was mainly due to an increase in the amount of subsidy received from the municipal government of Suining County of Jiangsu Province, PRC in relation to our contribution to the local economy through Xuzhou Texhong Times.

Other losses/(gains)—net

Our other losses decreased by 99.1% to RMB20,000 for the ten months ended October 31, 2010 from RMB2.1 million for the ten months ended October 31, 2009. This decrease was mainly due to the decrease in losses recognized on then-oustanding interest rate swaps and forward foreign exchange contracts.

Finance income

Our finance income decreased by 24.3% to RMB2.3 million for the ten months period ended October 31, 2010 from RMB3.1 million for the ten months ended October 31, 2009. This decrease was due to a decrease in the interest income on our bank deposits due to smaller average bank balances.

Finance costs

Our finance costs decreased slightly by 2.0% to RMB39.3 million for the ten months ended October 31, 2010 from RMB40.1 million for the ten months ended October 31, 2009. The decrease in finance costs was mainly attributable to increased foreign exchange gains upon conversion of RMB for amounts due on our U.S. dollar denominated bank borrowings.

Share of profit/(loss) of an associated company

As of and for the ten months ended October 31, 2009 and 2010, we owned 37% of Nantong Textile. We recorded a loss of RMB1.7 million for the ten months ended October 31, 2009 and a profit of RMB1.9 million for the ten months ended October 31, 2010, which represented our share of Nantong Textile's loss and profit for such periods, respectively. Nantong Textile's change to a profit for the ten months ended October 31, 2010 from a loss for the ten months ended October 31, 2009 was mainly due to improvement in its operating performance.

Profit for the period

As a result of the foregoing, our profit for the period increased by 212.6% to RMB590.9 million for the ten months ended October 31, 2010 from RMB189.0 million for the ten months ended October 31, 2009. Our net profit margin increased to 13.5% for the ten months ended October 31, 2010 from 5.8% for the ten months ended October 31, 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

Our revenue increased by 9.4% to RMB4,088.4 million for the year ended December 31, 2009 from RMB3,737.6 million for the year ended December 31, 2008. The increase in revenue was mainly due to an increase in sales volume of our yarn products, which increased by 39.2% to 2009 from 2008 and was driven primarily by an increase in annual production capacity as well as strong demand in the PRC due partly to a general improvement in the economy. A significant portion of the increase comprised an increase in revenue from other yarns. During 2009, we gained domestic denim yarn market share, which helped utilize the additional production capacity in our plant in Vietnam. The increase in our revenue from sales of yarn was partially offset by a decrease in our revenue from grey fabrics and garment fabrics, which reflected our increasing focus on our yarn products as compared to grey fabrics and garment fabrics. Yarns accounted for 72.2% and 78.2% of our total revenue for the years ended December 31, 2008 and 2009, respectively.

Cost of sales

Our cost of sales increased by 6.4% to RMB3,487.1 million for the year ended December 31, 2009 from RMB3,278.7 million for the year ended December 31, 2008. This increase related to an increase in the production and sales of yarn products in the same period, but was partially offset by the cost advantages we derived from production from our Vietnam production facility.

Gross profit

As a result of the foregoing, we recorded a gross profit of RMB601.3 million for the year ended December 31, 2009, representing an increase of 31.0% from RMB458.9 million for the year ended December 31, 2008. Gross profit margin for the years ended December 31, 2008 and 2009 were approximately 12.3% and 14.7%, respectively.

Selling and distribution costs

Our selling and distribution costs increased by 25.2% to RMB114.2 million for the year ended December 31, 2009 from RMB91.3 million for the year ended December 31, 2008. The increase in the amount of selling and distribution costs in 2009 was mainly attributable to an increase of transportation expenses as a result of the increase in sales and marketing activities associated with the growth of the business during the period.

General and administrative expenses

Our general and administrative expenses decreased by 12.4% to RMB143.9 million for the year ended December 31, 2009 from RMB164.2 million for the year ended December 31, 2008. The decrease in general and administration expenses was mainly due to our more prudent management of such expenses following the financial crisis.

Other income

Our other income decreased by 68.8% to RMB20.7 million for the year ended December 31, 2009 from RMB66.2 million for the year ended December 31, 2008. The decrease in other income was mainly due to a decrease in the discretionary subsidy provided by municipal governments in Xuzhou, PRC, a decrease in government grants relating to the relocation of Xuzhou Texhong Yinfeng and a decrease in consulting income related to our provision of technical services in the form of operating data and statistics to a machinery vendor.

Other losses/(gains)-net

Our other losses decreased by 77.2% to RMB1.1 million for the year ended December 31, 2009 from RMB4.8 million for year ended December 31, 2008. This decrease was mainly due to the decrease in losses recognized on then outstanding interest rate swaps and forward foreign exchange contracts.

Finance income

Our finance income decreased slightly by 1.0% to RMB4.0 million for the year ended December 31, 2009 from RMB3.9 million for the year ended December 31, 2008.

Finance costs

Our finance costs increased significantly by 1,349% to RMB49.1 million for the year ended December 31, 2009 from RMB3.4 million for the year ended December 31, 2008. This increase was mainly due to a decrease in exchange gain arising from the depreciation of the U.S. dollar against the Renminbi in respect of our payments toward our U.S. dollar-denominated bank borrowings. Exchange gain on financing activities was RMB54.6 million and RMB1.5 million for the years ended December 31, 2008 and 2009, respectively, which was offset by net interest expense of RMB58.0 million and RMB50.6 million for the years ended December 31, 2008 and 2009, respectively. This substantial decrease in exchange gain resulted in the increase of our finance costs.

Share of profit/(loss) of an associated company

As of and for the years ended December 31, 2008 and 2009, we owned a 37% interest in Nantong Textile. The change from a loss in 2008 to a profit in 2009 was due mainly to the general improvement in Nantong Textile's operating performance. Our share of profit/(loss) of an associate was RMB17.0 million and share of profit was RMB0.3 million for the years ended December 31, 2008 and 2009, respectively, which represented our share of Nantong Textile's loss and profits in such years.

Profit for the year

As a result of the foregoing, our profit for the year increased by 33.3% to RMB285.6 million for the year ended December 31, 2009 from RMB 214.2 million for the year ended December 31, 2008. Our net profit margin increased to 7.0% for the year ended December 31, 2009 from 5.7% for the year ended December 31, 2008.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

Our revenue increased by 14.9% to RMB3,737.6 million for the year ended December 31, 2008 from RMB3,254.1 million for the year ended December 31, 2007. The increase in revenue was mainly due to an increase in yarn sales of 26.2% to RMB 2,699.0 million for the year ended December 31, 2008 from RMB2,138.1 million for the year ended December 31, 2007. This increase in revenue from yarn sales was due primarily to an increase in volume of sales of our stretchable core-spun yarn as a result of our increased production capacity. Although the volume of sales for our products increased in 2008, the average selling prices of our products decreased for the same period due to the worldwide recession and the sluggish export market which had affected our downstream customers. Moreover, the increase in revenue from yarn was offset by a decrease in revenue from sales of grey fabrics, which decreased by 8.6% to RMB910.0 million for the year ended December 31, 2008 from RMB995.3 million for the year ended December 31, 2007. During 2008, we restructured our grey fabrics business, which affected revenue from sales of grey fabrics.

Cost of Sales

Our cost of sales increased by 16.3% to RMB3,278.7 million for the year ended December 31, 2008 from RMB2,819.4 million for the year ended December 31, 2007. This increase was primarily attributable to the increase in sales volume of yarn despite the average unit cost of yarn slightly decreasing in the same period.

Gross profit

As a result of the foregoing, our gross profit increased by 5.6% to RMB458.9 million for the year ended December 31, 2008 from RMB434.8 million for the year ended December 31, 2007, but gross profit margin decreased to 12.3% in 2008 from 13.4% in 2007.

Selling and distribution costs

Selling and distribution costs increased by 20.3% to RMB91.3 million for the year ended December 31, 2008 from RMB75.9 million for the year ended December 31, 2007. The increase in selling and distribution costs was principally due to an increase in transportation expenses associated with the increase in sales volume and market expansion during the period.

General and administrative expenses

Our general and administrative expenses increased by 13.7% to RMB164.2 million for the year ended December 31, 2008 from RMB144.4 million for the year ended December 31, 2007. The increase in general and administrative expenses was principally due to an increase in expenses associated with the increase in scale of our operations.

Other income/(gains)—net

Our other income increased significantly by 205.2% to RMB66.2 million for the year ended December 31, 2008 from RMB21.7 million for the year ended December 31, 2007. This increase was mainly due to an increase in discretionary subsidy granted by the PRC government from approximately RMB18.4 million in 2007 to approximately RMB33.1 million in 2008, a government grant of RMB18.4 million relating to the relocation of Xuzhou Texhong Yinfeng and consulting revenue of RMB11.7 million in 2008 related to technical services in providing operating data and statistics to a machinery vendor.

Other losses

Our other losses changed to a loss of RMB4.8 million for the year ended December 31, 2008 from other gains of RMB43.1 million for the year ended December 31, 2007. This increase was mainly due to a one-off waiver of outstanding indebtedness of Yizheng Chemical Fiber Changzhou Daming Co. after we acquired Texhong Textile (HK) Holdings Limited.

Finance income

Our finance income decreased slightly by 9.8% to RMB3.9 million for the year ended December 31, 2008 from RMB3.6 million for the year ended December 31, 2007. The increase was mainly due to a increase in the interest income on our bank deposits mainly owing to higher average cash balances.

Finance costs

Our finance costs decreased by approximately 85.5% to approximately RMB3.4 million for the year ended December 31, 2008 from approximately RMB23.5 million for the year ended December 31, 2007. The decrease was mainly due to an increase in the exchange gain to RMB54.6 million from RMB34.3 million for the years ended December 31, 2007 and 2008, respectively. The exchange gain resulted from the depreciation of the U.S. dollar against the Renminbi in respect of our payments toward our U.S. dollar-denominated bank borrowings. This increase in exchange gain was partially offset by a slight increase in net interest expense of RMB0.2 million to RMB58.0 million for the year ended December 31, 2008 from RMB57.8 million for the year ended December 31, 2007.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 9.9% to RMB214.2 million for the year ended December 31, 2008 from RMB237.8 million for the year ended December 31, 2007. Our net profit margin decreased to 5.7% for the year ended December 31, 2008 from 7.3% for the year ended December 31, 2007.

Liquidity and Capital Resources

In recent years, our principal uses of cash have been to fund our working capital, capital expenditures and interest payments. Our sources of liquidity have historically been from cash generated by operating activities and with short-term and long-term bank borrowings.

Our principal requirements for capital have historically been for the purchases of production facilities and equipment to expand our production capacity. In 2011, we expect to make capital expenditures for the further expansion of production facilities.

Historically, we have been able to finance our working capital needs and expansion from cash flow from operations and bank loans. For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we financed our working capital needs principally with cash flow from operations and financed our expansion with a combination of internally generated cash and bank borrowings.

Our ability to meet our financing requirements through borrowings will be affected primarily by the support of our existing principal lenders and availability of project financing or other similar long-term debt financing. Some of our financing agreements, including the Indenture, include covenants that, among other provisions, impose restrictions on our ability to incur additional debt or pay dividends and require us to satisfy certain financial ratios. In addition, some of our financing agreements, whether to finance expansion, working capital or otherwise, require that various conditions be satisfied prior to a borrowing under the relevant agreement. These generally include the satisfaction of financial ratios and other conditions. Covenants and conditions to borrowings contained in these financing agreements could restrict our activities including our ability to finance and complete planned expansion projects or to otherwise take advantage of business opportunities. See "Description of Other Material Indebtedness" for a summary of these restrictions.

We expect that our cash flow from operations, together with our cash, cash equivalents, currently available banking facilities, the proceeds of the offering of the Notes and additional anticipated borrowings will be sufficient to fund our planned capital expenditures, to make scheduled interest and amortization payments under our outstanding indebtedness and to fund our anticipated working capital needs in 2011.

As of October 31, 2010, our bank and cash balances (including pledge bank deposits) amounted to RMB241.5 million (US$36.2 million), and our inventories and trade and bill receivables were RMB1,023.5 million (US$153.4 million) and RMB600.2 million (US$90.0 million), respectively. Our bank borrowings were RMB1,096.1 million (US$164.3 million) as of October 31, 2010.

We expect to finance our expansion in the foreseeable future by funds raised through the issuance of equity or debt securities, bank borrowings, internally generated cash or a combination of these monies.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows for the periods indicated.

	For the year ended December 31,				For the ten months ended October 31, (unaudited)		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	RMB'000	US$'000
Cash flow from operating activities	173,640	374,490	368,031	55,171	180,831	197,929	29,671
Cash flow from investing activities	(486,341)	(328,164)	(120,715)	(18,096)	(155,000)	(299,839)	(44,949)
Cash flow from financing activities	372,429	67,071	(168,325)	(25,233)	(17,855)	(72,123)	(10,812)
Net increase in cash and cash equivalents	59,728	113,397	78,991	11,842	7,976	(174,033)	(26,090)
Cash and cash equivalents at beginning of the year	139,887	199,615	313,012	46,923	313,012	392,003	58,765
Cash and cash equivalents at end of the year	199,615	313,012	392,003	58,765	320,988	217,970	32,675

Cash flow from operating activities

For the ten months ended October 31, 2010, our net cash generated from operating activities was RMB197.9 million, consisting primarily of cash generated from operations before changes in working capital of RMB833.6 million, partially offset by cash outflow due to changes in working capital of RMB559.0 million and income tax paid of RMB79.0 million. Our cash generated from operations before changes in working capital was a result of profit before income tax of RMB679.8 million and positive adjustments to profit before income tax of RMB153.8 million. The adjustments to profit before income tax primarily consisted of depreciation of RMB115.3 million and net finance costs of 36.9 million. The changes in working capital for ten months ended October 31, 2010 were primarily due to an increase in inventories of RMB308.9 million, an increase in prepayments of RMB278.6 million, an increase in trade and bill receivables of RMB164.7 million and an increase in deposits and other receivables of RMB76.3 million, partially offset by an increase in trade and bill payables of RMB255.8 million and an increase in accruals and other payables of RMB13.7 million.

For the year ended December 31, 2009, our net cash generated from operating activities was RMB368.0 million, consisting primarily of cash generated from operations before changes in working capital of RMB480.9 million, partially offset by a cash outflow due to changes in working capital of RMB91.6 million and income tax paid of RMB25.2 million. Our cash generated from operations before changes in working capital was a result of profit before income tax of RMB317.8 million and positive adjustments to profit before income tax of RMB163.1 million. The adjustments to profit before income tax primarily consisted of depreciation of RMB120.6 million and realized fair value change on derivative financial instruments of RMB7.9 million and net finance costs of RMB45.2 million. The changes in working capital for the year ended December 31, 2009 were due to a decrease in trade and bill payables of RMB120.5 million, an increase in prepayments, deposits and other receivables of RMB24.8 million and an increase in inventories of RMB24.6 million, partially offset by an increase in accruals and other payables of RMB49.7 million and a decrease in trade and bill receivables of RMB28.6 million.

For the year ended December 31, 2008, our net cash generated from operating activities was RMB374.5 million, consisting primarily of cash generated from operations before changes in working capital of RMB371.2 million, partially offset by income tax paid of RMB25.6 million. Our cash generated from operations before changes in working capital was a result of profit before income tax of RMB248.4 million and positive adjustments to profit before income tax of RMB122.8 million. The adjustments to profit before income tax primarily consisted of depreciation of RMB94.5 million, share of profit from an associate of RMB17.0 million and fair value loss on derivative financial instruments of RMB7.9 million. The changes in working capital for the year ended December 31, 2008 were primarily due to an increase in trade and bill payables of RMB163.6 million, partially offset by an increase in trade and bill receivables of RMB99.3 million, an increase of inventories of RMB38.1 million and an increase in prepayments, deposits and other receivables of RMB8.9 million.

For the year ended December 31, 2007, our net cash generated from operating activities was RMB173.6 million, consisting primarily of cash generated from operations before changes in working capital of RMB314.3 million, partially offset by cash outflow due to changes in working capital of RMB123.4 million and income tax paid of RMB20.8 million. Our cash generated from operations before changes in working capital was a result of profit before income tax of RMB262.6 million and positive adjustments to profit before income tax of RMB51.7 million. The adjustments to profit before income tax primarily consisted of depreciation of RMB72.5 million, excess of fair value of net assets acquired over cost of acquisition of a subsidiary of RMB38.9 million and net finance income of RMB19.9 million. The changes in working capital for the year ended December 31, 2007 were primarily due to an increase in inventory of RMB201.2 million and an increase in trade and bill receivables of RMB137.4 million, partially offset by an increase in trade and bill payables of RMB197.0 million and a decrease in prepayments, deposits and other receivables of RMB19.7 million.

Cash flow from investing activities

Cash flow used in investing activities principally comprises cash used to purchase property, plant and equipment and to acquire land use rights. Cash flow from investing activities is principally from proceeds from disposal of property, plant and equipment and land use rights.

For the ten months ended October 31, 2010, our net cash used in investing activities was RMB299.8 million. Our net cash used in investing activities for this period consisted of purchase of property, plant and equipment of RMB294.9 million mainly for the Phase II construction of Xuzhou Texhong and Phase III of our Vietnam production facility, which was partially offset by proceeds from disposal of property, plant and equipment of RMB2.6 million.

For the year ended December 31, 2009, our net cash used in investing activities was RMB120.7 million. Our net cash used in investing activities for this period primarily consisted of purchase of property, plant and equipment of RMB88.4 million mainly for the Phase II construction of our Vietnam production base and acquisition of land use rights of RMB40.5 million for a new factory under construction in Xuzhou, PRC, which was partially offset by a decrease in pledged bank deposits of RMB5.7 million.

For the year ended December 31, 2008, our net cash used in investing activities was RMB328.2 million. Our net cash used in investing activities for this period primarily consisted of the purchase of property, plant and equipment of RMB309.7 million mainly for the Phase II of our Vietnam production base and the acquisition of land use rights of RMB25.8 million for Xuzhou Texhong, which was partially offset by the proceeds from the disposal of property, plant and equipment and land use rights of RMB25.9 million in connection with the disposal of property and equipment by Xuzhou Texhong Yinlian and Xuzhou Texhong Yinfeng.

For the year ended December 31, 2007, our net cash used in investing activities was RMB486.3 million. Our net cash used in investing activities for this period primarily consisted of the purchase of property, plant and equipment of RMB436.7 million mainly for the Phase I construction of our Vietnam production base, the acquisition of land use rights of RMB35.9 million for Xuzhou Texhong, Changzhou Textile Texhong and our Vietnam production facility, and the acquisition of and capital contribution to our associate Nantong Textile of RMB15.0 million and RMB12.3 million, respectively, which was partially offset by the proceeds from disposal of property, plant and equipment and land use rights of RMB10.0 million in connection with Texhong Textile Times and Jiangsu Century Texhong and a decrease in pledged bank deposits of RMB3.6 million.

Cash flow from financing activities

Cash flow from financing activities includes proceeds from short-term and long-term bank loans and proceeds from the issuance of shares. Cash outflow from financing activities comprises repayments of borrowings and payments of interest on bank loans and payments of dividends.

Net cash outflow from financing activities amounted to RMB 72.1 million for the ten months ended October 31, 2010, comprising the repayment of borrowings of RMB678.1 million, the payment of dividends to shareholders of RMB143.3 million and the payment of interest on borrowings of RMB55.2 million, partially offset by proceeds from borrowings of RMB804.4 million.

Net cash outflow from financing activities amounted to RMB168.3 million for the year ended December 31, 2009, comprising the net repayment in bank borrowings of RMB887.0 million, the payment of interest of RMB50.1 million and dividends paid of RMB27.2 million, partially offset by proceeds from borrowings of RMB796.1 million.

Net cash inflow from financing activities amounted to RMB67.1 million for the year ended December 31, 2008, comprising proceeds from bank borrowings of RMB856.8 million and proceeds from issuance of shares of RMB0.5 million, partially offset by repayments of bank borrowings of RMB653.1 million, the payment of interest of RMB75.0 million and the payment of dividends to shareholders of RMB62.1 million.

Net cash inflow from financing activities amounted to RMB372.4 million for the year ended December 31, 2007, comprising proceeds from bank borrowings of RMB1,138.0 million, including the partial drawdown of a three-year syndication loan agreement of US$80 million we entered into with a bank syndicate with ABN AMRO Bank and Citibank as lead arranging banks and the issuance by the Company of the Index-Linked Notes in 2007. This cash inflow was partially offset by repayment of other borrowings of RMB680.4 million, the payment of interest on bank loans of RMB50.9 million and the payment of dividends to our shareholders of RMB35.0 million.

Capital Commitments and Expenditures

As of October 31, 2010, we had capital commitments of RMB379.9 million (US$56.9 million) in respect of our purchases of plants and machinery.

Capital commitments as of October 31, 2010 but not yet incurred is as follows:

	October 31, 2010 (unaudited)	
	RMB'000	**US$'000**
Property, plant and equipment	379,912	56,952
Authorized but not contract for	—	—
Contracted but not provided for	379,912	56,952
Total	379,912	56,952

The following table sets forth our capital expenditures for the periods indicated:

	Year Ended December 31,				Ten Months Ended October 31,	
	2007	2008	2009		2010	
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	US$'000
Property, plant and equipment	436,722	309,727	88,408	13,253	294,880	44,205
Land use rights[1]	35,900	25,818	40,546	6,078	—	—
Total	472,622	335,545	128,954	19,331	294,880	44,205

(1) Our interests in land use rights represent prepaid operating lease payments. As of October 31, 2010, land use rights of RMB 10.1 million consisted of cost of RMB 59.3 million less related government grants of RMB 49.2 million which were deducted from the acquisition cost.

We expect to incur planned capital expenditures of approximately RMB379.9 million in 2011, which mainly comprise expenditures on expanding our production base in Vietnam. We anticipate that the funds needed for such capital expenditures will come from future project financings of approximately US$60 million which we expect to incur in the first quarter of 2011 and/or the proceeds of this offering.

Our capital expenditure plans are subject to changes based upon the execution of our business plan, the progress of our capital projects, our financial performance, market conditions, our outlook for future business conditions, and relevant governmental approvals needed. To the extent that we do not generate sufficient cash flows from our operations to meet our working capital needs and to execute our capital expenditure plans, or to the extent certain governmental approvals may not be obtained in a timely manner or at all, we may revise our capital expenditure plans or seek additional debt or equity financing. We cannot assure you that we will be able to raise additional capital on acceptable terms or at all.

Indebtedness

As of October 31, 2010, our total bank borrowings amounted to RMB1,096.1 million (US$164.3 million), of which RMB400.0 million (36.5%) were denominated in Renminbi, RMB687.6 million (62.7%) were denominated in U.S. dollars, and RMB8.5 million (0.8%) were denominated in Hong Kong dollars. As of October 31, 2010, our bank borrowings bore interest at interest rates ranging from 2.1% to 6.8% per annum. See "Description of Other Material Indebtedness."

Our net borrowings as of October 31, 2010 were as follows:

	As of October 31, 2010 (unaudited)	
	RMB'000	US$'000
Current borrowings		
Secured bank borrowings	79,364	11,897
Other bank borrowings	322,070	48,281
Unsecured bank borrowings	71,926	10,782
Subtotal	473,360	70,960
Non-current borrowings		
Secured bank borrowings	158,728	23,795
Other bank borrowings	86,383	12,950
Unsecured bank borrowings	210,371	31,537
Notes payable	167,270	25,075
Subtotal	622,752	93,357
Total	1,096,112	164,317

Collateral

As of October 31, 2010, a total of approximately RMB238.1 million of our bank loans were secured, of which:

- RMB199.4 million was secured by a pledge of our property, plant and equipment with a net book amount of approximately RMB439.0 million; and

- RMB38.7 million was secured by a pledge of our land use rights with a net book amount of approximately RMB52.3 million.

Other borrowings in a total amount of approximately RMB408.5 million (US$61.2 million) as of October 31, 2010 were secured by intra-group guarantees. See "Description of Other Material Indebtedness."

We also expect our future project financing to be on a secured basis.

Contingent liabilities

As of October 31, 2010, we did not have any contingent liabilities.

Contractual Obligations and Commitments

The following table sets forth our contractual obligations as of October 31, 2010 for the periods indicated.

	Payment Due By Period				
Contractual Obligations	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**	**Total**
			(RMB'000)		
Debt obligations[(1)]	473,360	529,177	73,503	20,072	1,096,112
Operating lease commitments	4,136	4,725	3,433	65,803	78,097
Purchase obligations — raw materials .	2,352,844	—	—	—	2,352,844
Purchase obligations — fixed assets . .	178,224	201,688	—	—	379,912
Total contractual obligations	3,008,564	735,590	76,936	85,875	3,906,965

(1) Our debt obligations comprise our bank borrowings under various facility agreements for working capital, trade finance and other bank borrowings and notes. The obligations mature at different times and are subject to acceleration under different circumtances, depending on the facility agreement or trust deed as applicable. For more information, see "Description of Other Material Indebtedness."

Off-Balance Sheet Arrangements

As of October 31, 2010, we did not have any off-balance sheet arrangements.

Taxation

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as we had no assessable profit arising in or derived from Hong Kong for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010.

PRC enterprise income tax

Taxation charged to our combined profit and loss account represents PRC EIT paid or payable by the Company's subsidiaries in the PRC. Subsidiaries established in the PRC are subject to EIT at rates ranging from 20% to 25% during the period.

Except for Texhong China Investment, Shanghai Texhong and Shanghai Hongrun, all other subsidiaries established in the PRC, being wholly foreign owned enterprises, have obtained approvals from the relevant PRC tax bureau for their entitlement to exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the earlier of the first profitable year, after offsetting all unexpired tax losses carried forward from the previous years or January 1, 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Taizhou Texhong Yintai, Xuzhou Texhong Yinlian and Changzhou Texhong Textile are still entitled to preferential tax treatment. Taizhou Texhong Yintai and Changzhou Texhong Textile are still entitled to preferential tax treatment until 2011, and Xuzhou Texhong Yinlian is entitled to preferential tax treatment until 2012. In accordance with Notice of State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (Guofa [2007] No. 39), Texhong China Investment will enjoy EIT at rate of 22% in 2010, 24% in 2011 and 25% in 2012. All other PRC subsidiaries are subject to EIT at rate of 25%.

Vietnam income tax

Under applicable Vietnam law, a corporate income tax rate of 25% typically applies to all enterprises except for those entitled to tax incentives. As approved by the relevant authority in Vietnam, our Vietnam subsidiary is entitled to (i) a corporate income tax incentive at the tax rate of 10% of taxable income for a period of 15 years from 2007, the year in which it began operations and (ii) exemption from corporate income taxes for four years commencing from its first year of profitability, and upon the expiration of such exemption period, a tax reduction of 50% of the applicable corporate income tax rate (10% or 25%, as the case may be) for nine years thereafter provided that we regularly employ at least 5,000 employees in Vietnam.

Our Vietnam subsidiary is entitled to an alternative tax incentive based on its location in the Nhon Trach Industrial Zone. We qualify for this tax incentive as our Vietnam production is based in this zone. This incentive provides for a corporate income tax rate of 15% for 12 years which includes three years of tax exemption from its first profitable year and a 50% reduction of the applicable corporate tax rate (15% or 25%, as the case may be) for the subsequent seven years.

Other income tax

The Company was incorporated in the 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 Act or the Business Companies Act, 2004, of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

No provision for Macau profits tax has been made as we had no assessable profit arising in or derived from Macau for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010.

Market Risks

We are exposed to various types of market risks, including changes in commodities prices, foreign exchange rates, interest rates, and inflation in the normal course of business.

Commodities price risk

We are exposed to fluctuations in the prices of cotton textile products that we sell and of the raw materials we require for the production of such products, mainly cotton. Our cotton textile products are sold and raw materials are purchased at market prices. Therefore, fluctuations in the prices of both its cotton textile products and raw materials have had and will continue to have a significant effect on our results of operations. In the ordinary course of business we recently entered into advance cotton purchase contracts for a portion of our cotton supply. We have hedged our exposure with respect to a small portion of our contracted cotton supply by entering into cotton future contracts under which we are obligated to deliver cotton.

Foreign exchange rate risk

We conduct our business and most of our sales primarily in China, whose official currency is the Renminbi. We also have substantial operations in Vietnam, whose official currency is the Vietnam Dong. We import a certain amount of cotton for our PRC operations and also import most of the cotton we use at our Vietnam production facility from sources outside of Vietnam. Our foreign currency denominated liabilities as of October 31, 2010 include borrowings and trade payables denominated in

U.S. dollars, Renminbi, and Vietnam Dong. We also pay dividends in foreign currencies, and will need to pay interest on the Notes to the Noteholders following this offering. As a result, we have certain exposure to foreign exchange fluctuations and market risk associated with such exchange rate movements against the Renminbi, our primary and reporting currency.

The Renminbi and the Vietnam Dong are not freely convertible currencies. The PRC government and/or the Vietnam government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Any future exchange rate volatility relating to the Renminbi or Vietnam Dong may give rise to uncertainties in the value of our net assets, earnings and dividends. Any appreciation of the Renminbi or Vietnam Dong may subject us to increased competition from imported cotton textile products. It may also make any new Renminbi-denominated or Vietnam Dong investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi or Vietnam Dong for such purposes. Further, any devaluation of the Renminbi may adversely affect the value of our net assets, earnings and dividends in foreign currency terms and will increase the amount of Renminbi we need to service its U.S. dollar obligations, such as the Notes.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, approximately 45.3%, 62.9%, 52.6% and 51.5%, respectively, of our liabilities were denominated in a currency other than the Renminbi, primarily U.S. dollars. A depreciation of the value of the Renminbi would have a detrimental effect on our liabilities in Renminbi terms.

See "Risk Factors—Risks Relating to Doing Business in the PRC and Vietnam—Fluctuation in the value of the Renminbi may have a material adverse affect on our operations and financial condition."

As of the date of this Offering Memorandum, we have not entered into any currency hedging arrangements.

Interest Rate Risk

Our exposure to market risk for changes in interest rates arises primarily from our bank borrowings. In particular, our interest rate exposures are mainly to changes in U.S. dollar market interest rates (LIBOR) and the PBOC lending rate. We had RMB 585.4 million (US$87.8 million) in loans that are subject to floating rates of interest as of October 31, 2010. As of October 31, 2010, we have not hedged our floating interest rate exposure except for a long-term bank loan of US$2.7 million.

Inflation

According to the National Bureau of Statistics of China, the change in the consumer price index in China was 4.8%, 5.9%, -0.7% and 3.0% for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. According to the General Statistics Office in Vietnam, the growth rate of consumer prices in Vietnam was 12.6%, 19.9%, 6.5% and 8.7% for 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. We have not been materially affected by inflation and deflation during such periods.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our profit for the year/period before the following items:

- finance income and costs;
- income tax expense;
- depreciation; and
- amortization.

EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. As the textile production business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit of companies with similar operating results. Therefore, we believe that the investor community commonly uses these types of financial measures to assess the operating performance of companies in its market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year/period. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as income tax expenses and amortization, EBITDA provides further information about our operating performance and an additional measure for comparing its operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year/period under HKFRS to our definition of EBITDA for the periods indicated:

	For the year ended December 31,			For the ten months ended October 31,	
	2007	**2008**	**2009**	**2009**	**2010**
			(RMB'000)		
Profit for the year/period	237,777	214,193	285,565	189,019	590,907
Adjustments					
Interest expenses[(1)]	60,282	64,306	52,243	43,200	54,077
Income tax expense	24,830	34,175	32,266	21,631	88,911
Depreciation	72,539	94,531	120,568	98,168	115,286
Amortization	1,070	1,783	2,545	1,854	2,839
EBITDA	396,498	408,988	493,187	353,872	852,020

(1) Interest expenses represents interest expenses on our bank borrowings wholly repayable within five years.

EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. We have included EBITDA because we believe that they are useful supplements to the cash flow data as a measure of our performance and ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to the EBITDA presented by other companies because not all companies use the same definitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a reconciliation of our profit for the year/period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

Recent HKFRS Pronouncements

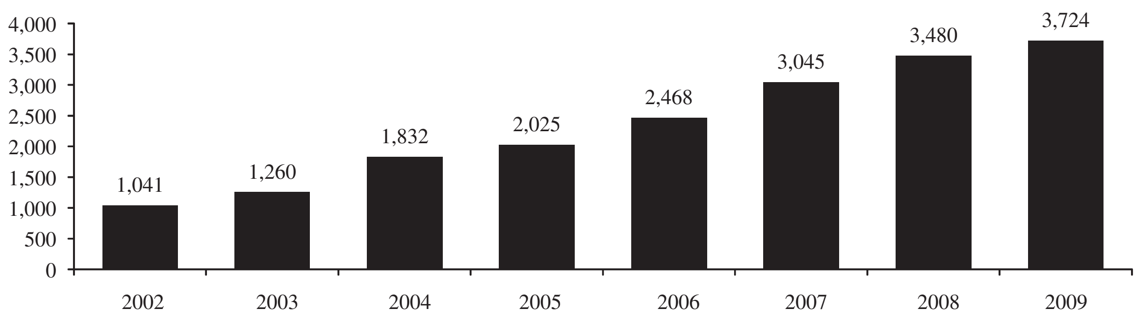
The HKICPA has released revisions to several accounting standards that may have a material impact on our future financial statements. We are currently evaluating the potential impact that the adoption of such accounting standards may have on our financial statements. See Note 2 of the Notes to the Consolidated Financial Statements.

This section, including all data (actual, estimated and forecast) relating to, among other things, demand and market share information, has been derived from publicly available information as well as industry publications and surveys. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, neither we nor the Initial Purchaser has independently verified any of the data from third-party sources or ascertained the underlying assumptions relied upon. Forecasts, estimates, predictions and other forward-looking statements contained in this section and throughout this Offering Memorandum are inherently uncertain because of changes in factors underlying their assumptions, or events or combinations of events that cannot be reasonably foreseen. Actual results and future events could differ materially from such forecasts, estimates, predictions or such statements. As a result, you are cautioned against placing undue reliance on such information. Further, the extent to which the market share and industry data and forecasts used in this Offering Memorandum are meaningful depends on the reader's familiarity with and understanding of the methodologies used in compiling such data and forecasts. There are no standard data gathering methodologies in the industry in which we conduct our business, and methodologies and assumptions may vary widely among different industry sources.

The Textile Industry in China

China is a significant textile manufacturing nation. According to the WTO, China is the world's largest textile and clothing exporting nation, accounting for 28.3% and 34.0% of world textile and clothing exports in 2009, respectively. According to the National Bureau of Statistics of China (the "NBS"), the Chinese textile industry's approximately 53,000 companies employed 11.1 million people and generated gross industrial output value of RMB3.7 trillion in 2009. Furthermore, according to the NBS, the gross industrial output value of the textile industry grew at a CAGR of 20.0% from 2002 to 2009.

Chinese textile industry gross industrial output value
(RMB in billions)



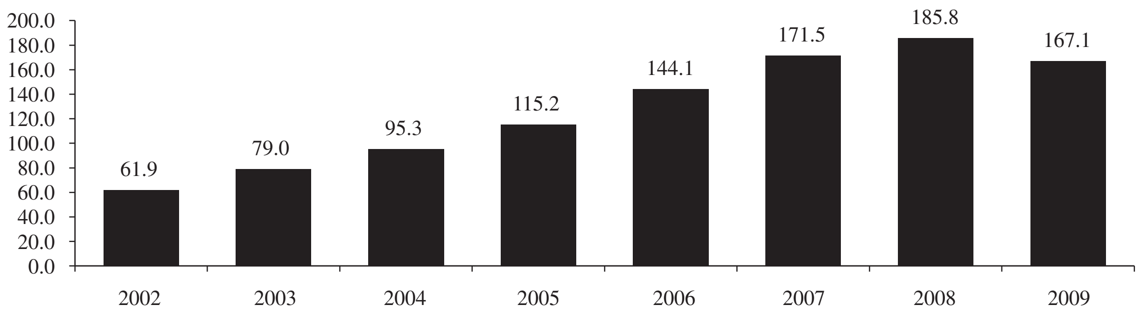
Source: NBS

The textile industry in China remains fragmented. According to the NBS, in 2002, "large and medium" enterprises generating annual revenue of at least RMB30.0 million accounted for 10.6% of the total number of textile enterprises in China and 41.9% of total Chinese textile industry revenue. Similarly, in 2009, such enterprises accounted for 9.4% of the total number of textile enterprises in China and 47.9% of total Chinese textile industry revenue. The presence of state-owned and state-holding enterprises in the textile industry has diminished considerably in the same period.

According to the NBS, these state-owned and state-holding enterprises, which accounted for 8.3% of the total number of textile enterprises in China and 17.7% of total Chinese textile industry revenue in 2002, accounted for 1.3% of the total number of textile enterprises in China and 3.3% of total Chinese textile industry revenue in 2009.

China's accession to the WTO in December 2001 was a significant event for the Chinese textile industry as major textile markets, including the markets of the European Union and the United States, began to phase out import quotas on Chinese textile products. As a result, China's textile exports have grown significantly since China's WTO accession. According to the WTO, China's textile exports grew at a CAGR of 15.3% from 2002 to 2009.

Textile and clothing exports
(US$ in billions)



Source: WTO International Trade Statistics annual reports

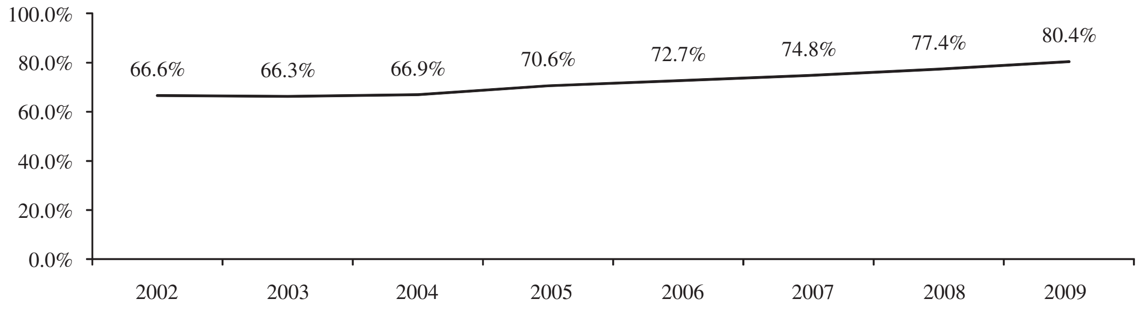
China's textile industry was significantly impacted during the recent global recession. China's textile and clothing exports in 2009 were US$167.1 billion, representing a decline of 10.1% from 2008, according to the WTO. In April 2009, the Chinese government enacted the Textile Industry Revitalization Plan, which called for higher export tax rebates, increased financing support and encouragement of investment to boost the industry.

Based on a number of measures, China's textile industry has resumed growth. According to the China National Textile and Apparel Council (the "CNTAC"), a federation of Chinese textile enterprises, textile and clothing exports reached US$172.1 billion for the ten months ending October 31, 2010, an increase of 23.1% over export levels for the same period in 2009. According to CEIC Data Company Ltd ("CEIC"), a macroeconomic database provider, the gross industrial output value of textile enterprises in China from January to August 2010 was RMB2,925.3 billion, an increase of 25.6% over the gross industrial output value in the corresponding period in 2009. Finally, according to CEIC, investments in fixed assets in the Chinese textile industry during the ten months ending October 31, 2010 reached RMB313.1 billion, an increase of 29.7% over fixed asset investment levels during the same period in 2009.

Several challenges remain for the Chinese textile industry, particularly for its exports. Labor shortages have persisted, as migrant workers laid off at the onset of the global recession have regained employment in other industries and regions away from traditional textile manufacturing bases, accelerating a general trend of rising wages. Raw material costs have also been rising, notably for cotton. Finally, the timing and magnitude of a possible appreciation in the Renminbi, recent interest rate increases and pressure to upgrade inefficient equipment could each impact the competitiveness of China's textile exports. See "Risk Factors—Risks Relating to Doing Business in the PRC and Vietnam—Fluctuation in the value of the Renminbi may have a material adverse effect on our operations and financial condition."

Meanwhile, the Chinese textile industry has been realigning toward domestic consumption, which is expected to be a continuing industry growth driver. According to CEIC, domestic sales as a share of total industry sales have risen from 66.6% in 2002 to 80.4% in 2009.

Chinese textile industry proportion of domestic industrial sales value to total industrial sales value



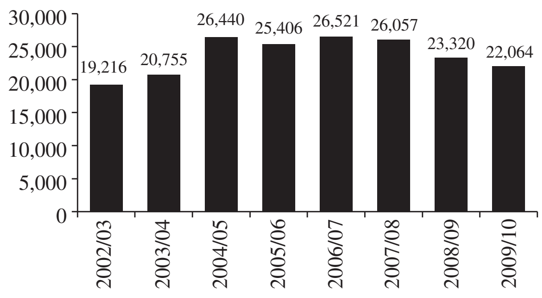
Source: CEIC. Calculated as proportion of total industrial sales value less delivery value for export to total industrial sales value for aggregate of textiles; textiles, garment, fabric shoes and hats; and chemical fibers.

With a population of approximately 1.3 billion people, rapid economic growth, an increase in the disposable income of the general population and overall rising living standards, there is significant potential for a continued rise in domestic demand for Chinese textile products.

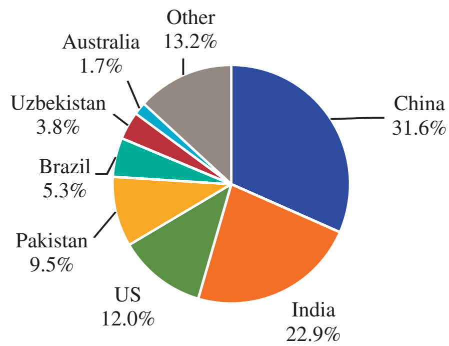
The Chinese Cotton and Chemical Fibers Industry

Cotton is noted for its versatility, appearance, performance and natural comfort, and is a primary input for natural fiber production, and in turn, the Chinese yarn industry. According to the United States Department of Agriculture (the "USDA"), world cotton production has been tightening, with production in the 2009-2010 market year declining 5.4% from production levels in the 2008-2009 market year. USDA figures also show that during the 2009-2010 market year, China was the world's largest cotton producer, accounting for 31.6% of world production.

World cotton production ('000 tonnes)



2009/10 world cotton production by country

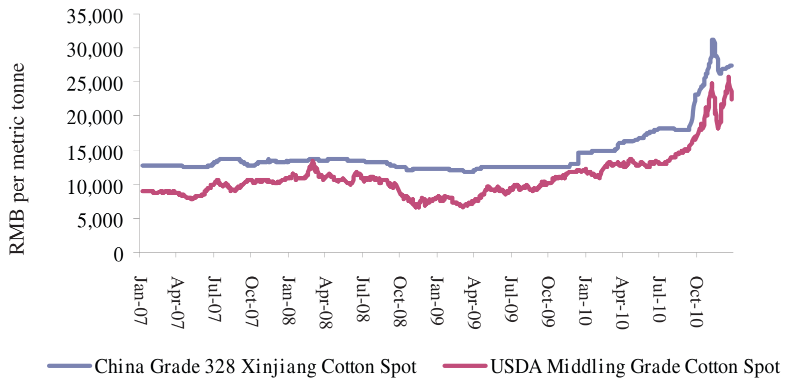


Source: "Cotton: World Markets and Trade" annual reports, USDA, Foreign Agriculture Services.

Note: Years represent market years beginning each August 1.

According to the USDA, world cotton cash and futures prices surged in the first ten months of 2010, driven by declining world production in the three previous seasons, stronger than expected recovery in Chinese demand, sharply higher prices for agricultural commodities that compete with cotton for land, export restrictions by the government of India, concerns about 2010 crop production in China and Pakistan, the weaker U.S. dollar, as well as speculative pressures. Cotton prices have since fallen, driven by efforts by the Chinese government to curb speculation and sell cotton reserves, but they still remain at relatively high levels. Cotton spot prices in China are regularly higher than those of the United States due to cotton import quotas imposed by China. According to the USDA, Vietnam, by contrast, eliminated cotton import quotas in 2005 and now imports nearly half of its cotton from the United States.

Cotton spot price (January 1, 2007 to October 31, 2010 inclusive)



Source: Bloomberg

Note: USDA middling grade cotton spot originally quoted in US cents/pound, converted at daily USD:RMB spot rate and 1 tonne = 2,204.623 pounds according to Bloomberg data, and adjusted upward by 13.0% for comparability with PRC domestic cotton spot price, which includes 13.0% VAT.

These recent developments are reflected in the USDA's forecasts of China's cotton supply and demand for the 2010-2011 market season. Cotton area, yield, production and beginning cotton stocks are expected to continue their decline in 2011 as cotton reserves are depleted, while imports are expected to rise to meet demand. Consumption estimates are reduced to 47.0 million bales as limited global supplies could force less competitive mills to curtail operations or substitute polyester for cotton.

China Cotton Supply and Demand

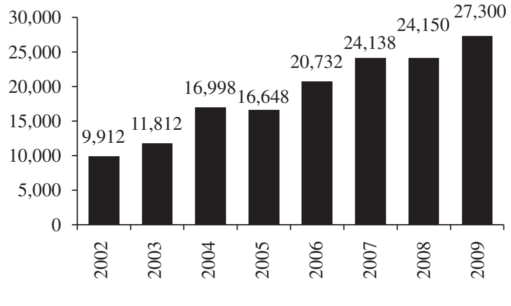
Forecasts as of November 2010	Units	2007/08	2008/09	2009/10	2010/11 (forecast as of November 2010)
Area	1,000 hectares	6,200	6,050	5,300	5,100
Yield	kg/hectares	1,299	1,321	1,315	1,281
Beginning stocks	1,000 bales	20,536	20,504	22,366	15,246
Production	1,000 bales	37,000	36,700	32,000	30,000
Imports	1,000 bales	11,530	6,996	10,903	15,000
Total supply	1,000 bales	69,066	64,200	65,269	60,246
Consumption	1,000 bales	51,000	44,000	50,000	47,000
Exports	1,000 bales	62	84	23	25
Total use	1,000 bales	51,062	44,084	50,023	47,025
Loss	1,000 bales	(2,500)	(2,250)	0	0
Ending stocks	1,000 bales	20,504	22,366	15,246	13,221
Stock/use %	1,000 bales	40.2	50.7	30.5	28.1

Source: "Cotton: World Markets and Trade," November 2010, United States Department of Agriculture.

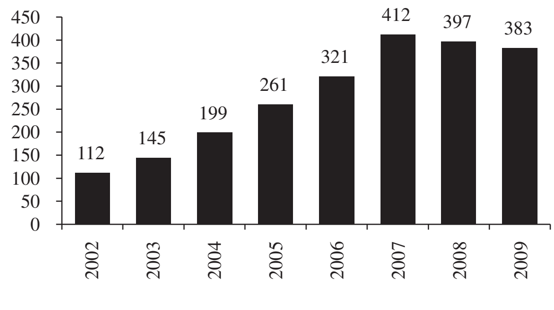
Note: 1 bale = 480 lbs.

As with cotton, chemical fibers are also a significant input for production of certain yarns including core-spun yarns. According to the NBS, chemical fibers include fibers with pulp, man-made fibers, polymer fibers, and chemical fiber-added silk. NBS figures show that chemical fiber production has grown steadily from 2002 to 2009 at a CAGR of 15.6%. Gross industrial output value has grown at a CAGR of 19.2% but has been declining since the beginning of the global recession.

Chemical fiber production ('000 tonnes)



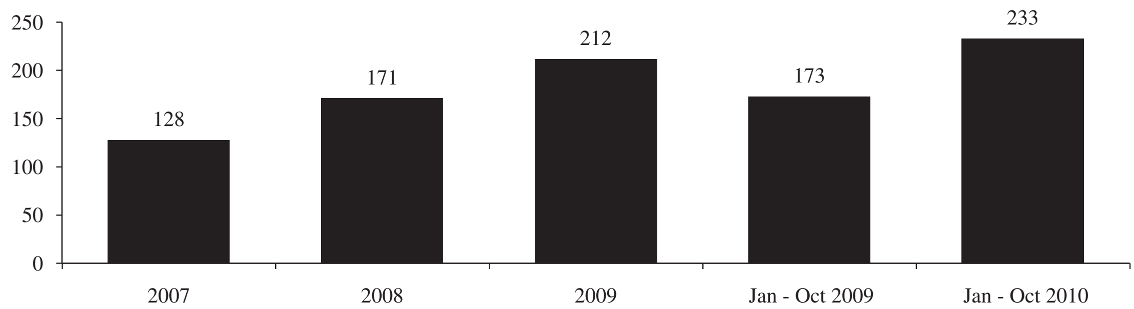
Chemical fiber gross industrial output value (RMB in billions)



Source: NBS

Spandex is a type of chemical fiber that is blended with natural fibers such as cotton, wool, silk and linen. Its key advantages are its elasticity, its light weight and its durability against exposure to perspiration, detergents and lotions. Figures on global and Chinese spandex production are limited. According to the CNTAC, global production of PVA fiber and polyurethane fiber, the chemical name for spandex fiber, grew from 294,000 tonnes in 2002 to 612,000 tonnes in 2008. Production of spandex within China began in 1989 and experienced slow but steady development, increasing from approximately 128,000 tonnes in 2007, the earliest year for which data are available, to approximately 212,000 tonnes in 2009, according to CEIC. The rapid development of spandex production in China in the past three years is principally attributable to the overall development of the Chinese textile industry, a reduction in investment costs for the production of spandex, the increasing application of spandex in garment production and the establishment of spandex production facilities in China by international manufacturers.

China polyurethane fiber (spandex) production
('000 tonnes)

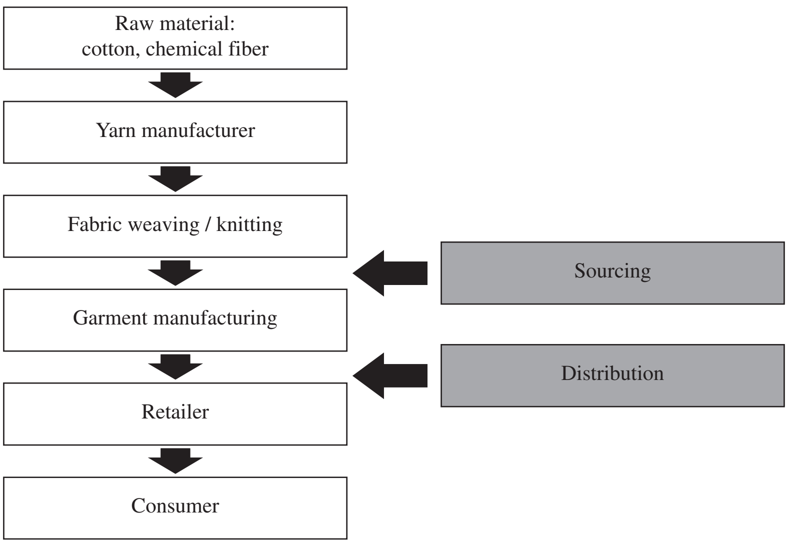


Source: CEIC

The Chinese Yarn Industry

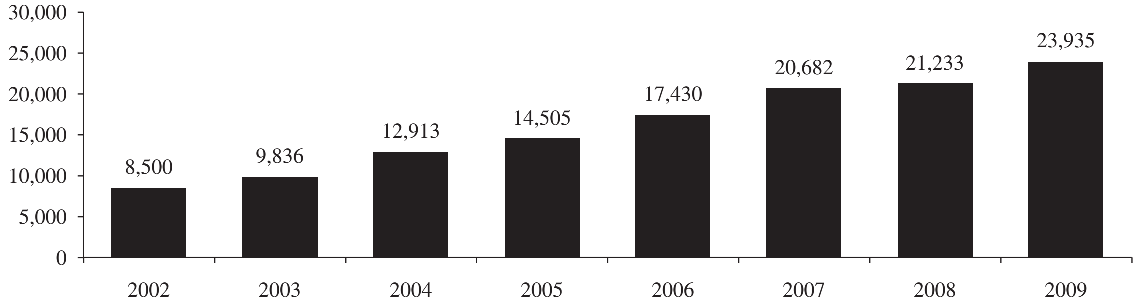
Yarn manufacturing is part of the broader textile supply chain. Yarn manufacturers use natural and/or chemical fibers as raw input material and in turn supply yarn to fabric weavers and knitters. The garments and home textiles made from yarn are ultimately sold to consumers.

China polyurethane fiber (spandex) production



According to the NBS, since 2002 yarn production has shown steady growth at a CAGR of 15.9%. According to the CNTAC, national yarn spinning capacity has increased from approximately 58 million spindles in 2001 to approximately 110 million spindles in 2009. According to the NBS, yarn production has risen from 8.5 million tons in 2002 to 23.9 million tons in 2009.

Yarn production
('000 tonnes)

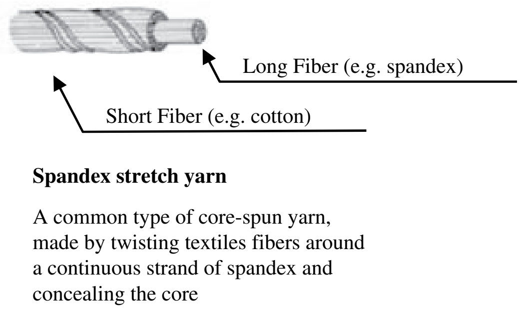


Source: NBS

In its ongoing drive to modernize and expand, China's yarn manufacturing industry continues to be a major global purchaser of yarn-spinning machinery. According to the International Textile Machinery Shipment Statistics 2009, published by the International Textile Manufacturer Federation, a Switzerland-based global textile industry federation, China accounted for 70% of global shipments of short-staple spindles and 55% of open-end rotors in 2009.

Core-spun yarns are a type of layered yarn, involving the wrapping of short fibers, typically cotton or wool, around an inner set of long fibers. Spandex stretch yarn, a type of core-spun yarn, uses a continuous spandex fiber as its core long fiber.

Core-Spun Yarn

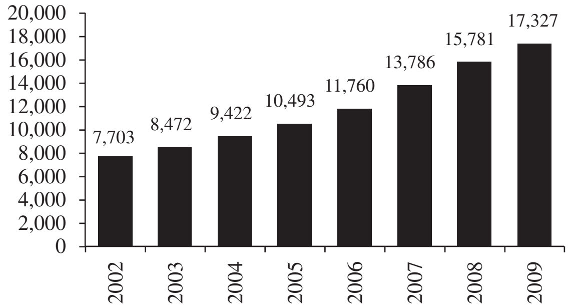


The Chinese Retail Apparel and Consumer End Market

Retail sales of garments and apparel to consumers represents the principal end market in the textile supply chain. The Chinese apparel industry is of great importance to the Chinese economy in terms of trade, employment, investment and revenue. The industry is characterized by short product life cycles, vast product differentiation, rapid changes in demand and relatively long supply processes.

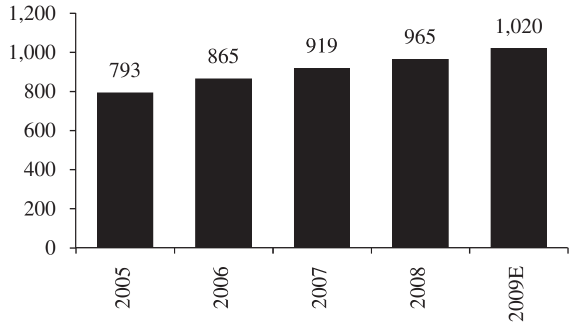
The retail apparel market has been growing steadily in recent years, even through the global recession. According to Datamonitor, a global business information provider, the Chinese apparel retail industry had estimated total revenue of RMB700 billion in 2009, representing a CAGR of 12.2% for the period spanning 2002-2009. Per capital urban household disposable income, an important growth driver for the Chinese apparel retail industry, has also grown steadily since 2002 at a CAGR of 12.3%, according to the NBS.

Per capita urban household disposable income (RMB)



Source: NBS

China retail apparel industry value (RMB in billions)



Source: Datamonitor

The retail apparel industry's steady growth makes it attractive to new entrants. Entry into the retail apparel industry does not require large capital outlay, and setting up a single, independent apparel retail store is within the means of many individuals. As a result, the Chinese retail apparel industry remains fragmented. Industry rivalry is further intensified by low switching costs for consumers, but moderated by significant product differentiation and stable, steady industry growth. Looking ahead, the Chinese textile industry seems likely to benefit from secular growth trends in Chinese consumer spending, as end products such as garments and apparel see increasing demand and the industry continues to realign towards domestic consumption.

Fiber Consumption

According to CNTAC, Chinese fiber consumption per capita was 14.6 kilograms in 2009, 34% more than the world average. However, China continues to lag behind consumption levels in developed countries—for instance, fiber consumption per capita in North America was greater than 38 kilograms and consumption per capita in nearby Thailand was 19.8 kilograms.

Regarding urban and rural apparel spending, China's textile industry suffers from developmental imbalance geographically. The gap between urban and rural consumption in textile garments serves as an acute illustration: In 2009, urban consumption in clothing per capita was RMB1,042, approximately 5.4 times the rural consumption per capita, or RMB193.4. If the gap between urban and rural economic development were to shrink, rural consumption of textile garment could become the driving force behind the development of domestic market for textile products.

Competition

Yarn production in China is a fragmented industry. We believe the following companies are our main competitors in core-spun yarn and denim yarn production.

Core-spun yarn competitors

Anhui Huamao Group Co. Ltd.

Anhui Huamao Group Co. Ltd. is an Anqing, Anhui-based state-owned manufacturer of yarns and gray fabric, with capacity of 500,000 spindles and 1,000 shuttleless looms, generating revenue and exports in 2008 of RMB2.6 billion and US$34.1 million, respectively, according to the company's website. Of the company's total spindle capacity, based on industry experience we estimate that approximately 100,000 spindles are dedicated to the manufacture of stretchable core-spun yarn, and that the rest of the spindles are mainly dedicated to production of yarns using general and special fibers including Tencel®, Modal®, linen and spun silk. The company sells yarns under its "Chengfeng" brand, and gray fabric under its "Yinbo" and "Jiangbo" brands, according to the company's website. Its subsidiary, Anhui Huamao Textile Co. Ltd., is listed on the Shenzhen Stock Exchange under ticker symbol 000850.

Jiangsu Tempo Group

Jiangsu Tempo Group is a Zhangjiagang, Jiangsu-based private manufacturer of stretchable core-spun yarn, ordinary cotton yarn, dyed yarn and cotton garment fabrics, with capacity of 210,000 spindles and 96 air-jet looms, and revenue in 2005 of over RMB800 million, according to the company's website. Of the company's total spindle capacity, based on industry experience we estimate that approximately 140,000 spindles are dedicated to the manufacture of competing products, namely stretchable core-spun yarn.

Tiantai Textile Co. Ltd.

Tiantai Textile Co. Ltd. is a Zhangjiagang, Jiangsu-based private manufacturer of core-spun spandex yarn and women's apparel, with capacity of 30,000 spindles and 120 air-jet looms, according to the company's website. The company focuses its yarn production exclusively on core-spun spandex yarn, and sells women's apparel under its "Dushiqing," "Shani'er" and "City Lover" brands, according to the company's website.

Zhang Jia Gang Hua Fu Spandex Co. Ltd.

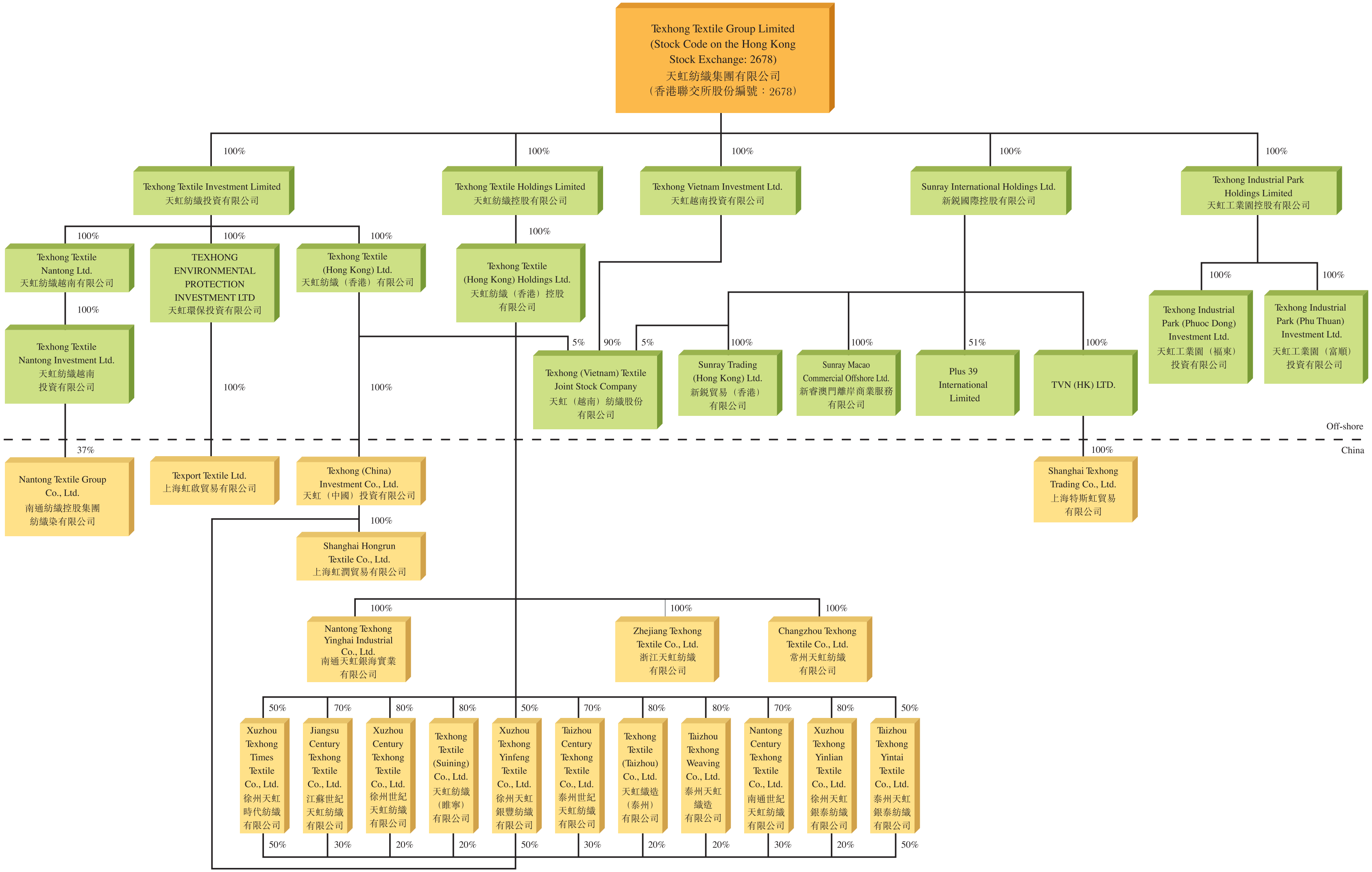
Zhang Jia Gang Hua Fu Spandex Co. Ltd. is a Zhangjiagang, Jiangsu-based private manufacturer of core-spun yarn and covered yarns with capacity of 100,000 spindles and revenue in 2005 of approximately RMB400 million, according to the company's website. Of the company's total spindle capacity, based on industry experience we estimate that approximately 50,000 spindles are dedicated to the manufacture of competing products, namely stretchable core-spun yarn. In addition, through its Sino-foreign joint venture Zhangjiagang New Fortune Dyeing Co. Ltd., the company dyes fabrics, with annual dyeing capacity of 25 million meters, export value of US$16 million, and sales of RMB300 million, according to the company's website.

Denim yarn competitors

Hunan Dongxin Group

Hunan Dongxin Group is a Xiangtan, Hunan-based private manufacturer of cotton, blended, dyed, denim and other yarns, as well as related fabrics and garments, with yarn capacity of 500,000 spindles and 5,000 weaving looms, according to the company's website. We compete with the company primarily in the denim yarn market. The company has sales offices in seven provinces and exports to the United States, Europe, Southeast Asia and other regions, according to the company's website.

CORPORATE STRUCTURE AND HISTORY OF THE GROUP
(as of December 31, 2010)



History and Development

Our Company was incorporated in the Cayman Islands with limited liability on July 12, 2004. Following our reorganization, our Company became the holding company of our Group, and listed its shares on the main board of the Stock Exchange of Hong Kong Limited on December 9, 2004.

We commenced business when our founder and current Chairman, Mr. Hong, established Hong Kong Tin Hong in Hong Kong in August 1997. Since our establishment in 1997, we have grown rapidly through construction of new production sites and through acquisitions. Currently we have 11 manufacturing bases in the PRC, within the Yangtze River Delta, and a production base in Vietnam. We have over 1,600 customers in the PRC and abroad, with a sales network extending across the PRC, Japan, Turkey, Brazil, South Korea, Hong Kong and Vietnam. Our sales center is are located in Shanghai.

During the period from 2000 to 2004, we expanded our manufacturing facilities principally through the acquisition of fixed assets and factory premises from four state-owned enterprises which were put into liquidation, namely Suining Cotton Textile Factory, Taizhou No. 2 Weaving Factory, Rudong Textile and Feng County Textile.

In July 2007, we entered into an acquisition agreement with Hong Kong Tin Hong Industrial Limited ("Tin Hong Industrial"), a private company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Hong, to acquire a 37% equity interest of Nantong Textile for an aggregate amount of RMB30 million. Nantong Textile is a dyeing and printing company based in Nantong, Jiangsu Province.

In late 2006, we launched our yarn capacity expansion plan in Vietnam. In November 2007, we began full commercial production in respect of Phase I of our Vietnam project, which increased our production capacity by approximately 70,000 spindles. In November 2008, we began full commercial production in respect of Phase II of our Vietnam expansion project, which increased our production capacity by approximately 140,000 spindles. We are in the process of completing Phase III of our Vietnam production expansion project, which is expected to increase our production capacity by an additional 190,000 spindles once it begins full commercial production, which is expected to be in the first quarter of 2011.

In July 2010, we began full commercial production in respect of Phase II our of expansion of our production base in Xuzhou, China, which increased our production capacity for core-spun yarn by approximately 70,000 spindles.

Overview

We believe that we are one of the leading manufacturers and suppliers of core-spun yarn in the PRC based on total sales and production capacity. We recorded total sales of RMB4,392.7 million (US$658.5 million) and had a total production capacity of over 800,000 spindles (producing approximately 200,000 tonnes of yarn per year) and over 900 air-jet looms for the ten months ended and as of October 31, 2010. We have been honored as one of the top 20 most competitive enterprises in the PRC's cotton spinning and yarn dyeing industry for seven consecutive years from 2004 to 2010, according to the Statistics Center of the China Textile Industry Association and CCTIA. While approximately 88% of our sales were to customers in the PRC for the ten months ended October 31, 2010, we have production bases in both the PRC and Vietnam.

We manufacture over 1,200 types of yarn products and over 2,700 types of fabric products. We focus on and specialize in the manufacturing and sale of high value-added stretchable core-spun yarn and other yarns, including denim yarn, which accounted for 65.7%, 72.2%, 78.2% and 79.3% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

We currently have 11 production bases located in Xuzhou, Taizhou, Changzhou and Nantong of Jiangsu Province and Pujiang of Zhejiang Province as well as a production base in Dong Nai, Vietnam. We believe that we are the only PRC core-spun yarn manufacturer among our major competitors to have operations in Vietnam or outside greater China. This has provided us with relative cost advantages over our PRC competitors with production facilities solely in the PRC as we are able to import cheaper cotton from overseas to Vietnam which is not subject to import quotas and have lower labor costs and other non-raw material production costs and tax incentives in Vietnam. As of October 31, 2010, our production bases cover an overall area of approximately 1,420,000 square meters, of which workshops comprise approximately 695,000 square meters, with approximately 13,600 employees. Our yarn production facilities operate 24 hours a day in three shifts except during the Chinese New Year holiday and when production facilities are under repair or routine maintenance. We also have a research and development center in Changzhou which focuses on product development to further enhance and differentiate our product mix by further development of differentiated products. Our sales center is located in Shanghai.

We currently have over 1,600 customers in China and overseas, and a sales network extending across the PRC, Japan, Turkey, Brazil, South Korea, Hong Kong and Vietnam. As of October 31, 2010, we had approximately 1,400 PRC customers, many of whom are located in southern and eastern China where many textile and garment companies are located, and over 200 overseas customers.

In recent years, we have expanded our production capacity in Vietnam and introduced new equipment to enhance our capability to produce differentiated products. We commenced full commercial production in respect of Phase I and Phase II of our Vietnam production expansion project in November 2007 and November 2008 with production capacities of approximately 70,000 spindles and 140,000 spindles, respectively. We are in the process of completing Phase III of our Vietnam production expansion project with 190,000 spindles, which we expect to begin full commercial production in the first quarter of 2011.

For the years ended December 31, 2007, 2008 and 2009, our total revenue was RMB3,254.1 million, RMB3,737.6 million and RMB4,088.4 million (US$612.9 million), respectively, and our net profit attributable to equity holders of the Company was RMB237.8 million, RMB214.2 million and RMB285.6 million (US$42.8 million), respectively. For the ten months ended October 31, 2010, our total revenue was RMB4,392.7 million (US$658.5 million) and our net profit attributable to equity holders of the Company was RMB590.9 million (US$88.6 million).

We have been a listed company on the Hong Kong Stock Exchange (stock code: 2678) since December 9, 2004. As of December 31, 2010, our market capitalization was approximately HK$5.35 billion (US$690.2 million) based on the closing price of our shares.

Competitive Strengths

We have an established market position as one of the leading manufacturers of core-spun yarn in the PRC

We have established a market position as one of the leading manufacturers of core-spun yarn, including stretchable core-spun yarn. We have a strong brand name in the domestic PRC market and have received the following awards in recent years:

- Competiveness Top 20, China Cotton Spinning and Yarn Dyeing Industry (2009-2010), awarded to us each year from 2004 and 2010 by the Statistics Center of China Textile Industry Association and CCTIA;

- Revenue Top 100, China Textile and Apparel Industry (2009-2010), awarded by the Statistics Center of China Textile Industry Association (September 2010), in which we ranked 22nd;

- Competiveness Top 500, China Textile and Apparel Businesses (2009-2010), awarded by China Textile Industry Association (September 2010), in which we ranked 57th; and

- Our trademark Xin Zhu has been recognized as a Famous Brand in Jiangsu, China each year since 2007 by the Jiangsu Province Commerce Administration and Management Bureau.

We believe our market position enables us to capture a strong share of the PRC domestic market and enhances our bargaining power with suppliers and customers.

We benefit from low-cost advantages derived from our production operations in Vietnam

Our management has established a track record of expanding production facilities and operating at a relatively low cost. Prior to our initial public offering in 2004, we expanded our business through acquisitions of distressed assets from other textile players in the PRC. In view of rising production costs in the PRC, we expanded our business to Vietnam in 2006 to take advantage of the lower cost of overseas cotton, labor and other non-material production costs as compared to the PRC. In addition, we also enjoy favorable tax incentives in Vietnam which are no longer available for companies newly set up in the PRC. By locating part of our production operations in Vietnam, we are able to enhance our cost competitiveness compared to our PRC competitors, which we believe will contribute to a more sustainable profit margin.

We have a strong focus and track record in expanding our core competence in the large-scale manufacturing of core-spun yarn

Since 2005, we have focused principally on expanding our yarn business to respond to the growth in demand for core-spun yarn in China. For instance, we launched Phase I of our yarn capacity expansion plan in Vietnam in 2006 and began full commercial production by November 2007, which increased our production capacity by approximately 70,000 spindles. In November 2008, we began full commercial production in respect of Phase II of our Vietnam project, which increased our production capacity by approximately 140,000 spindles. We also increased our production capacity in the PRC by approximately 70,000 spindles at our Xuzhou Times production base, which began full commercial production in July 2010. In June 2010, we commenced Phase III of the Vietnam project, which is expected to begin full commercial production in the first quarter of 2011 and increase production capacity by approximately 190,000 spindles. At such time, we expect to have total production capacity of approximately one million spindles for production of different types of high value-added core-spun yarn and other yarns.

We have been able to differentiate and adapt our products to changing market conditions and customer demand to capitalize on higher-margin yarn products

We continue to focus on developing and manufacturing high value-added products to differentiate ourselves from conventional cotton textile manufacturers. We believe we have strong product development capability through cooperation with special fiber producers, such as INVISTA North America S.à.r.l. ("Invista") and Lenzing Fibers (Shanghai) Co. Ltd ("Lenzing Fibers"), as well as through our research and development activities at our center located in Changzhou. In 2009, we successfully applied a second generation specialized fiber technology supplied to us by Dow Chemical Pacific Ltd. ("Dow Chemical") to the production of stretchable yarn for manufacturing high-end, yarn-dyed fabrics and high-end denim fabrics, casual wear and uniform fabrics. We also produce different other core-spun yarns and high-end denim yarns using cellulose-based fiber and viscose supplied by Lenzing Fibers. By manufacturing and selling these differentiated products which tend to yield higher margins than common yarn, we have been able to achieve business growth and generate higher margins than other textile manufacturers supplying traditional textile products.

We believe that our production and sales and marketing teams can react responsively to changing market conditions and customer demand. Accordingly, we believe we are able to effectively adapt product and technical adjustments according to changes in the market and our customers' needs. In addition to the development of high value-added differentiated products as mentioned above, we generally are able to produce sample yarn products in two days and sample fabric products in seven days.

We enjoy certain operating efficiencies

Our management team has adopted centralized management functions for sales and marketing, logistics and purchasing, financial management and human resources. These centralized functions provide us with important advantages, such as strengthening our marketing capabilities and sales efforts on quality customers, alleviating sales pressure and administrative burdens of each production base, reducing operating expenses, enhancing overall operational efficiency and strengthening our financial control.

Because of the scale of our operations, we are able to coordinate purchases for our major raw materials and fixed assets on a group basis in order to obtain better purchasing terms and conditions from our core suppliers. Such arrangements could effectively reduce our unit cost of raw materials and our overall administrative costs.

We have also enhanced our inventory management since 2009 to improve operational and cost efficiencies. Through an arrangement with one of our major cotton suppliers, which has set up a warehouse in Singapore to secure the cotton supply for our Vietnam operations, we are able to reduce our cotton supply lead time to four days from an average of 45 days if shipped directly from the United States. This also enables us to fix the cotton purchase price closer to the receipt of shipment of such cotton, which in turn, enables us more pricing flexibility for our yarn products.

Textile manufacturing is a capital- and labor-intensive industry. A high utilization rate of the production facilities is essential to reduce the unit cost of the products and to allow us to remain competitive. Our yarn production facilities operate 24 hours a day in three shifts except during the Chinese New Year holiday and when production facilities are under repair or routine maintenance.

We have a diversified and stable customer base and established relationships with our largest customers

We have developed a broad customer base, which currently comprises over 1,600 customers, of which approximately 1,400 are PRC customers and 200 are overseas customers. Sales to our largest customer accounted for approximately 3.2%, 3.2%, 3.0% and 3.3% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. The combined sales to our five largest customers accounted for 12.1%, 11.4%, 10.6% and 10.2% of total revenue for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. We have established and maintained good business relationships with our ten largest customers for the year ended December 31, 2009 and ten months ended October 31, 2010, several of whom we have maintained commercial relationships for more than four years.

We have an experienced management team in the manufacturing and sale of textile products

Our management team has extensive experience in the manufacturing and sales of textile products, with many of our management members, including our founder and Chairman, Mr. Hong, each having 20 years or more of industry experience. In addition to being our Chairman, Mr. Hong also currently serves as a Vice President of the CCTIA. The extensive experience of our senior management team helps us to be responsive to market changes. They have demonstrated their ability to identify market opportunities to invest in and restructure loss-making assets, invest in new markets, as in the case of Vietnam, and expand our trading business between ASEAN countries and China. They have also demonstrated the ability to open up markets of highly profitable products, improve the quality of our products and expand our sales network. We believe that with the support of our experienced management team, we will be able to further enhance our leading position in the contemporary textile market.

Business Strategies

Further strengthen our market position in the PRC

The PRC is our major market. We believe that we have established a market position as a manufacturer of high-quality textile products, and we aim to maintain our market position through continuous expansion and development of differentiated products. Our main focus will continue to be on the promotion and sale of our stretchable core-spun yarn and denim yarn. We believe that the PRC economy will continue to grow in the next decade, which will in turn continue to create domestic demand for differentiated high value-added yarn products and high-quality garment products and we believe that we will likely benefit from these developments.

Pursue continued expansion and growth while leveraging the low-cost advantages in Vietnam

We intend to continue to expand our yarn business through the expansion of our existing facilities. Phase III of our Vietnam production expansion project is in progress and we expect this phase to commence full commercial production in the first quarter of 2011. In the future, we intend to evaluate and pursue other investment opportunities in the textile sector to strengthen our market position, increase our production capacity, expand our product range and broaden our marketing capabilities. This may include growth through prudent acquisitions, greenfield investments and/or expansion of existing facilities.

We believe our operations in Vietnam will enable us to enhance our production cost efficiency, scale and raw material efficiency, which in turn will help us maintain our competitive position in the future. In a volume-driven business, cost competitiveness is a key driver which differentiates industry leaders from others. We believe our operations in Vietnam will enable us to achieve further cost advantages with comparatively lower cotton costs, labor costs and other non-raw material production costs. We intend to continue to expand our production capacity in Vietnam.

Continue to focus on the development and production of high value-added specialized textile products

We aim to remain competitive and enhance profitability through the manufacture and sale of high value-added textile products. We will continue to focus on innovative product development to maintain our competitiveness in the textile industry in the PRC. We regularly engage in market research to keep abreast of market developments and trends, and we work together with our customers to jointly develop new yarn and fabrics. We also consult our suppliers on the latest fiber, spandex and other raw materials development and their applications. Through our research and development center in Changzhou, PRC, we will continue to seek to develop and improve a wide variety of products to meet the demand of our customers for differentiated high-end products.

We also aim to continue to work in cooperation with leading enterprises to apply new fiber technologies to our production of yarns and fabrics. Cooperation with third-party suppliers has provided us with valuable insights into the textile and clothing industry and has enabled us to adopt new production techniques through the product development process. Accordingly, we believe we are better positioned to identify upcoming trends in yarn and fabrics and react to changes in market demand for textile products.

Products

Our products can be broadly categorized into yarn, grey fabrics and garment fabrics. Set out below is a breakdown of our sales volume by principal products for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010:

	Year ended December 31,			Ten months ended October 31,
Sales volume by products	**2007**	**2008**	**2009**	**2010**
Yarn (*in tonnes*)				
Stretchable core-spun yarn	70,532	90,434	111,193	92,510
Other yarns	24,355	32,963	60,585	59,726
Total	94,887	123,397	171,778	152,236
Grey fabrics (*in thousand meters*)				
Stretchable grey fabrics	77,387	64,059	61,232	57,501
Other grey fabrics	35,429	34,579	32,036	22,322
Total	112,816	98,638	93,268	79,823
Garment fabrics (*in thousand meters*)	8,311	10,109	9,417	7,936

Yarn

Our major product is yarn, which accounted for RMB3,197.5 million, or 78.2%, of our total revenue for the year ended December 31, 2009, and RMB3,481.3 million, or 79.3%, of our total revenue for the ten months ended October 31, 2010. Sales volume of yarns increased by 39.2% to 171,778 tonnes for the year ended December 31, 2009 as compared to 2008, and by 9.1% to 152,236 tonnes for the ten months ended October 31, 2010, as compared to the same period in 2009.

Yarn is a continuous strand of textile fiber, filament or material in a form suitable for knitting, weaving or otherwise intertwining to form a textile fabric. Our yarn production comprises stretchable core-spun yarn and other yarns including denim yarn.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, in terms of tonnage, approximately 9.1%, 8.4%, 4.9% and 3.6%, respectively, of our yarn produced was used internally to produce grey fabrics products. The remaining portions were sold to independent customers.

Stretchable core-spun yarn

Stretchable core-spun yarn is a yarn made by twisting textile fibers around a continuous strand of stretchable fiber concealing the core. Our stretchable core-spun yarn generally use spandex as the core, which provides the yarn with elasticity. Stretchable core-spun yarn has the ability to stretch to a significant degree when tension is applied and to return to its original shape when the tension is released. For the ten months ended October 31, 2010, we produced over 720 types of stretchable core-spun yarn. Our main stretchable core-spun yarn products are combed cotton core-spun yarn, carded cotton core-spun yarn, denim core-spun yarn, cotton blended core-spun yarn and cotton blended core-spun yarn using Tencel® manufactured by Lenzing Fibers, core-spun yarn using Modal® manufactured by Lenzing Fibers, polyester and cotton blended core-spun yarn, polyester and rayon blended core-spun yarn and rayon core-spun yarn.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we sold approximately 70,532 tonnes, 90,434 tonnes, 111,193 tonnes and 92,510 tonnes of stretchable core-spun yarn, respectively. Our stretchable core-spun yarn is mainly sold to fabric weaving manufacturers and denim manufacturers in Jiangsu, Zhejiang, Guangdong and Shandong Provinces in the PRC.

Other yarns

In addition to stretchable core-spun yarn, we also produced over 480 types of other yarns for the ten months ended October 31, 2010. Our other yarn products mainly consist of denim yarn (both simple yarn and slub yarn), Tencel® yarn, acrylic and rayon blended knitted yarn, Modal® yarn, rayon yarn and blended yarns using different fibers.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we sold approximately 24,355 tonnes, 32,963 tonnes, 60,585 tonnes and 59,726 tonnes of other yarns, respectively. Our other yarns were sold mainly to fabric weaving manufacturers and denim manufacturers in the PRC.

Grey Fabrics

Grey fabrics are fabrics in the condition in which they leave the loom or knitting machine before any bleaching, dyeing or finishing treatment has been applied to them. Grey fabrics accounted for RMB770.9 million, or 18.9%, of our total revenue for the year ended December 31, 2009, and RMB794.3 million, or 18.0%, of our total revenue for the ten months ended October 31, 2010. For the years ended December 31, 2007, 2008 2009 and the ten months ended October 31, 2010, we sold approximately 112.8 million meters, 98.6 million meters, 93.3 million meters and 79.8 million meters of grey fabrics, respectively. For the ten months ended October 31, 2010, we produced over 2,700 types of grey fabrics. Our grey fabrics are categorized as stretchable grey fabrics and other fabrics.

Stretchable grey fabrics

The measurement of the elasticity of the fabric depends on the percentage and specification of the spandex fiber used and the way it is knitted or woven into fabric. Our stretchable grey fabrics mainly include stretchable grey fabrics, including cotton stretchable fabrics, satin stretchable fabrics and polyester and rayon blended stretchable grey fabrics.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we sold approximately 77.4 million meters, 64.1 million meters, 61.2 million meters and 57.5 million meters of stretchable grey fabrics, respectively. Our stretchable grey fabrics are mainly sold to printing and dyeing factories and trading agents in Jiangsu, Zhejiang and Guangdong Provinces in the PRC and in overseas countries.

Other grey fabrics

Our other grey fabrics include dobby grey fabrics, double weaved grey fabrics and cotton twill fabrics.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we sold approximately 35.4 million meters, 34.6 million meters, 32.0 million meters and 22.3 million meters of other grey fabrics, respectively. Our other grey fabrics were sold to printing and dyeing factories and trading agents in the PRC.

Garment fabrics

Garment fabrics are fabrics that have been bleached, dyed and finished and can be used directly for the production of garment. Our garment fabrics are mainly sold to overseas garment manufacturers and trading agents. We produce grey fabrics ourselves and outsource the printing and dyeing process to printing and dyeing companies. Grey fabrics which have been processed by these printing and dyeing companies are then sold to our customers.

New products

In order to maintain our market position and continue to differentiate our products, we regularly launch new products. We believe that we have strong product capability through cooperative relationships with special fiber producers, such as with Invista and Lenzing Fibers, as well as through our research development activities at our center located in Changzhou. Our research facility employed 63 personnel as of October 31, 2010.

Our recent product launches are summarized in the table below.

New Products Launched

Year	Product	Technology/Material	Manufacturers
2008	Non-spandex core-spun elastic yarn for high graded denim*	Olefin-based XLA™ fiber technology	Dow Chemical
2008	Non-spandex core-spun elastic yarn for high graded denim	Cellulose-based Tencel® fiber technology	Lenzing Fibers
2008	Core-spun textile product with metal wires	Metal wires	Changzhou R&D Center
2009	High-end yarn-dyed fabrics, high-end denim fabrics, high-end casual wear fabrics and high-end uniform*	Second generation olefin-based XLA™ fiber technology	Dow Chemical
2009	Tencel and cotton blended yarn	Cellulose-based Tencel® fiber, Modal® fiber and viscose fiber materials	Lenzing Fibers
2009	Coolmax high stretchable yarn	Coolmax	Invista
2009	Acrylic and rayon blended yarns for knitting	Acrylic fiber	Toray
2010	T400 core-spun yarn	T400® fiber	Invista
2010	FREEF!T™ core-spun yarn for denim and yarn dyeing	FREEF!T™	Invista
2010	Polyester and cotton blended yarn with environmental protection concept	Repreve®	Unifi Textiles (Suzhou) Co., Ltd.

* As Dow Chemical has discontinued production of its XLA™ fibers, we will discontinue the manufacture of these products after consumption of our entire existing XLA™ fibers inventory.

Sales and Marketing

Sales and Marketing Team

Our sales and marketing functions are carried out by a centralized sales and marketing team. This centralized sales and marketing team is divided into three groups specializing in sales and marketing for different types of products, namely yarn, grey fabrics and garment fabrics. The centralized sales and marketing team is responsible for formulating marketing and pricing strategies and overall sales planning for our Group and for marketing our products to existing and potential customers and obtaining feedback from customers in respect of the quality of the products and services we provide. Our senior management team is responsible for developing our overall marketing strategy, coordinating the sales and marketing and production planning functions, as well as product development. Our technical production staff and quality control staff assist the sales and marketing teams to serve and liaise with our customers. Upon receiving a sales order, the central sales and marketing team negotiates with the customers directly and determines whether the sales order should be accepted and, if so, the contract terms, including price and delivery time, based on the production schedule and overall sales and market conditions. Depending on the settlement terms, Texhong China Investment or our production facility will enter into sales contracts with customers according to agreed terms and conditions.

In order to promote our products and to keep abreast of any development in the textile and garment industry, we participate in a number of textile, cotton and clothing conferences and exhibitions in the PRC such as the China International Trade Fair for Apparel Fabrics and Accessories. We also place advertisements in various textile industry publications and websites to promote our products and to improve our corporate status in the textile industry.

We also have sales and marketing personnel stationed in seven major cities in the PRC. These sales personnel are responsible for providing after-sales and follow-up services and coordinating and managing our sales network in the PRC. Our sales network in the PRC currently covers 18 provinces and municipalities.

In addition, we also have a sales network extending across Japan, Turkey, Brazil, South Korea, Hong Kong and Vietnam. Overseas sales are direct sales to manufacturers and sales to non-exclusive trading agents who work on commission or to manufacturers introduced by trading agents.

As of October 31, 2010, we had 26 sales and marketing personnel working in the yarn sales and marketing group, 15 personnel working in the grey fabric sales and marketing group and 13 sales personnel working in the garment fabric sales and marketing group. We have not appointed nor do we currently have any arrangements with external sales representatives, trading agents or distributors for the distribution of our products.

Customers

Our customers include yarn or fabric traders, fabric weaving mills, printing and dyeing factories and garment manufacturers. Most of our products are sold domestically in the PRC to customers located in 18 provinces and municipalities in the PRC, mainly in Jiangsu, Zhejiang, Guangdong and Shandong Provinces, which are located in eastern China. We also sell products to customers in overseas countries including Japan, Turkey, Brazil, Hong Kong, South Korea and Vietnam. For more information on our sales by geographic locations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Revenue." As of October 31, 2010, we had over 1,600 customers, of which approximately 1,400 were PRC customers and 200 were overseas customers. Sales to our largest customer accounted for approximately 3.2%, 3.2%, 3.0% and 3.3% of total revenue for the years ended December 31, 2007, 2008, 2009 and the for ten months ended October 31, 2010, respectively. The combined sales to our five largest customers accounted for 12.1%, 11.4%, 10.6% and 10.2% of our total revenue for the years ended December 31, 2007, 2008, 2009 and the ten months ended October 31, 2010, respectively.

Pricing Policy

We generally adopt a cost-plus pricing structure, under which the prices of our products are principally determined with reference to the cost of our raw materials, principally cotton. In setting the prices of our products, we also take into account our other production costs, supply and demand in the domestic PRC market, current market trends and conditions and prices set by our primary competitors.

As prices of our raw materials increase, we generally are able to pass along certain of these raw material price increases to our customers in order to maintain profit margins. Our ability to do so is dependent upon market dynamics present at the time of any price increase. Historically, there has been a time lag between the time we began to experience raw material cost increases and the time we were able to pass on any such increases to our customers.

Credit Policy

We generally offer credit terms to domestic customers from "cash on delivery" to 90 days, and we offer export customers credit terms of 120 days which are settled primarily by letters of credit or telegraphic transfer. Although certain customers have credit terms of "cash on delivery," at times, they may not settle the payment upon delivery. If customers are recurring customers with good creditability, we normally grant a grace period of one month for these customers to settle their balance. Our accounting department reviews the aging of our receivables monthly. Unless payments are received or payment schedules are agreed with customers, no further credit sales would be made to customers with overdue trade receivable balances. The average trade and bills receivable turnover days as of December 31, 2007, 2008 and 2009 and October 31, 2010 were approximately 33 days, 41 days, 40 days and 35 days, respectively. Our bad debt provision policy is to provide specific provision for selected accounts receivable as is deemed appropriate or necessary by our management and to provide full provision for all accounts receivable aged over one year. We have not experienced significant bad debt problems that materially and adversely affected our business, financial condition, results of operations or prospects for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010.

Our domestic sales are settled in Renminbi and export sales are settled in U.S. dollars.

Seasonality

We do not experience strong seasonality in our sales. Sales are generally lower during the first quarter due to the Chinese New Year holidays in the PRC market.

Raw Materials and Suppliers

Raw Materials

Raw materials account for the largest portion of our cost of sales. The principal raw materials used in the production of our yarn are cotton, spandex and rayon. The principal raw material used in the production of fabrics is yarn.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we have not experienced any significant shortage of raw materials supply nor have we encountered any difficulty in the sourcing of raw materials, except for 2010 with respect to cotton. See below "—Cotton." The raw materials used by the production of our products are commonly available and alternative suppliers can easily be found to replace the current suppliers.

Our quality control department conducts random checks on the quality of our cotton, yarn and spandex to ensure that such raw materials meet our specifications. Raw materials are randomly checked to see if they meet the prescribed quality standards before they are accepted and stored in warehouses. Sub-standard raw materials are returned to the suppliers.

Cotton

Cotton is our major raw material. The cost of cotton and, to a lesser extent, its availability, generally have fluctuated in the past several years as a result of volatility in crop production and demand. United States agricultural programs affect crop production, and thus the cost and supply of cotton in the United States, and the policies of other governments, in particular the PRC, also affect worldwide prices and supplies. Cotton prices in 2008 and 2009 remained higher than the historic average, although cotton prices were on average lower in 2009 than in 2008. See "Industry Overview—The Chinese Cotton and Chemical Fibers Industry."

We mainly use PRC domestic cotton and U.S. cotton. Different types of cotton have different characteristics as they vary in color and texture, thus providing each type of cotton with different characteristics. We aim to blend such mixture of Chinese and U.S. cotton to optimize the product quality while minimizing purchase costs. At our Vietnam production facility, we may mix the U.S. cotton with Brazil cotton or cotton sourced from other countries.

In order to maintain a continuous production cycle, historically we have had a policy of maintaining approximately 30 to 60 days of cotton inventory. The level of our cotton inventory depends on orders on hand, the price of cotton in the PRC and in the United States, and the perceived future trend in the price of cotton. For the years ended December 31, 2007, 2008 and 2009, we did not enter into any long-term supply contracts with our cotton suppliers as there have been various sources of cotton available and we have not experienced any difficulty in securing a steady source of high-quality cotton. However, in October 2010, we entered into a series of cotton purchase contracts with our current largest supplier covering the period from January 2011 to July 2011 and certain other international and domestic cotton suppliers with the aim of enhancing our inventory management due to potential tight cotton supply in 2011. These arrangements have allowed us to maintain low inventory levels thus far. In selecting cotton suppliers, we usually take into consideration the price and quality of the cotton.

For the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, average consumption cost per tonne of cotton was approximately RMB11,791, RMB11,853, RMB10,622 and RMB 12,955, respectively.

Cotton purchased in the PRC, including imported cotton purchased from cotton traders in the PRC, is paid for on a cash-on-delivery basis, while cotton imported from overseas is paid for by letter of credit with average payment terms of up to 180 days.

Yarn

Yarn used in our fabric weaving mills is sourced either from our yarn spinning mills or from independent yarn suppliers.

Synthetic Fiber

We also use different types of synthetic fibers, including spandex, rayon, polyester and Tencel®, in the manufacture of our textile products. Synthetic fibers are generally available from a wide variety of sources both domestically and internationally. However the prices of those fibers are influenced heavily by supply and demand, manufacturing capacity, and to a lesser extent, petroleum prices (in the case of polyester and spandex) and the cost of the underlying polymers. In light of high petroleum prices in portions of 2008, the cost to our Group of certain synthetic fibers increased. While petroleum prices stabilized in 2009 and 2010, any additional pressures in the future, which we cannot predict, may further negatively impact the costs of such synthetic fibers.

Spandex

Spandex is used in the production of stretchable core-spun yarn and is used to provide elasticity to the yarn. Spandex is a manufactured elastomeric fiber and is lightweight and flexible, resistant to deterioration from perspiration, detergent and body oils and is characterized by its strength and durability. We purchase spandex mainly from PRC suppliers. Spandex used by our Vietnam production facility is mainly provided by a Korea-based factory in Vietnam.

Rayon

Rayon is a man-made regenerated fiber and is used to produce rayon yarn and certain stretch yarn. We purchase our rayon mainly from Lenzing Fiber and other PRC manufacturers.

Polyester

Polyester is a type of synthetic fiber. We purchase our polyester from PRC manufacturers.

Energy and utilities

A continuous and steady supply of electricity is important for our production. We also require a supply of steam to maintain the appropriate temperature and humidity level for our production process.

In the past three years, we have experienced electricity shortages at four of our production facilities, which occurred at different times, and which in total amounted to approximately 16 days. However, such shortages did not materially interfere with our production.

Steam is produced by burning coal purchased from independent third parties. As of October 31, 2010, we have not experienced any difficulty in securing our required supply of steam.

Suppliers

Our five largest suppliers accounted in aggregate for approximately 37.4%, 42.9%, 35.9% and 37.6% of our total raw material purchases for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively. Our largest supplier, which sold cotton to us, accounted for approximately 16.3%, 14.1%, 14.1% and 24.4% of our total raw material purchases for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

Production Process

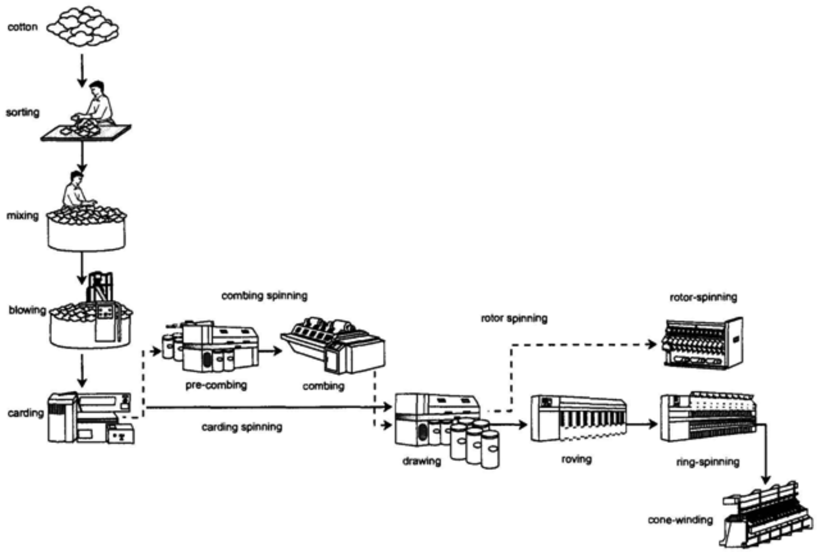
We have expanded our manufacturing facilities through acquisitions and the upgrading of acquired production facilities, as well as investments in new facilities. Since the commencement of our business, we have successfully expanded our production capabilities by acquiring fixed assets and factory premises of six state-owned enterprises which were put into liquidation. New production facilities have also been built to cope with the increasing demand for our products.

Our production capacity is a function of the number of spindles we have at our production facilities, the yarn thread count of our product mix, and our utilization rate of our production facilities. We generally operate our production facilities 24 hours a day with three shifts on average, except during the Chinese New Year holiday and when production facilities are under repair or routine maintenance. As of October 2010, all our spindles and 869 of a total 920 air-jet looms were in full operation. The remaining 51 air-jet looms were idle after the restructuring of our grey fabrics business in 2009.

Our actual production capacity is also affected by a number of factors, including, among others, (1) the specific types of machineries used in our production process, (2) the ability of our production facilities to sustain operations 24 hours a day for 365 days in a year, (3) the operating efficiency of our yarn spinning and fabric weaving machines and (4) the competence of our staff and their familiarity with the operating process.

Manufacturing process of yarn

The following shows the main spinning procedures adopted in our production facilities:



Sorting

Through this process, dirt and foreign matter are separated from cotton fibers.

Mixing

Cotton from different bales is mixed in order to achieve uniformity of color, length and other characteristics.

Blowing/opening

This process is to loosen, clean and blend the fibers. Loosened clean fibers are fed to a carding machine in sheet form.

Carding

Carding separates the tufts into individual fibers, removes trash particles and short fibers, orients the fibers lengthwise and evenly distributes them on the surface of the cylinder before reassembling the fibers in a netlike and sliver form.

Pre-combing

This is a process where slivers are drawn together to form a roll, or "lap roll." The purpose of this process is to produce uniform and stable lap rolls by repeatedly doubling of slivers.

Combing

Combing is to parallel fibers and to remove any short fibers and impurity from the long staple so that the combed fibers will be more uniform in length.

Drawing

Drawing increases the parallelism of the fibers and combines several carded (combed) slivers in one drawn sliver. This is a blending operation that contributes to greater yarn uniformity.

Roving

Roving reduces the size of the drawn sliver, increases the parallelism of the fiber together with a small amount of twist.

Ring spinning

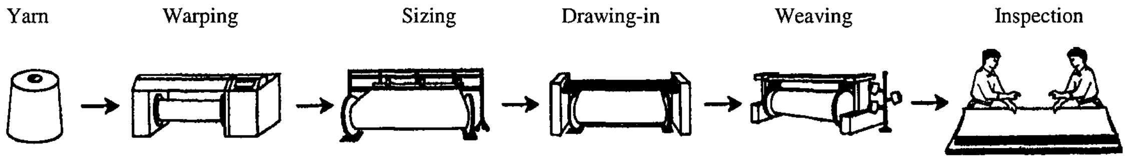
Spinning draws and adds the twist that makes the yarn into a single yarn.

Cone-winding

The yarns are subjected to winding in order to increase the length of the yarn on the package, to control its quality, and to eliminate the impurities and defects.

Manufacturing of woven fabrics

The following diagram shows the main weaving procedures adopted in our production facilities:



Warping

During warping, hundreds of yarns are simultaneously unwound from a group of bobbins placed in special reels and then wound again on a cylindrical roller (beam) with application of certain tension.

Sizing

At sizing, yarns from several rollers are joined into one package, which can be used directly on the loom, and the yarns are treated with a special adhesive composition called "size."

Drawing-in

Drawing-in is to draw the yarn through heddles and drop wires of the warp stop motion, with the aim to form a shed.

Weaving

Woven fabrics are made with two or more sets of yarns interlaced at right angles to each other and done by a machine called a loom.

Weaving consists of the following steps:

- shedding: the raising of one or more harnesses to separate the warp yarns and form a shed.
- picking: passing through the shed to insert the filling.
- beat-up: the reed pushing the filling yarn back in the cloth.
- take-up: the finished cloth is wound on the cloth beam.

Inspection of grey fabrics

Grey fabrics unloaded from looms are inspected for length and quality based on the type of production process and product. The grey fabrics are then cut and mended.

Production Facilities

The following table is a summary of our production facilities as of October 31, 2010:

Name of production facility	Name of company[1]	Main products/process	Gross floor area of the production facility (square meters)	Spindles	Air-jet looms	Rapier looms
Jiangsu Century Texhong Plant	Jiangsu Century Texhong	Yarn and grey fabrics	61,953	71,400	172	—
Xuzhou Century Texhong Plant	Xuzhou Century Texhong	Yarn - subcontracting work for Jiangsu Century	21,999	16,800	—	—
Xuzhou Texhong Times Plant	Xuzhou Texhong Times	Yarn	60,691	170,168	—	—
Xuzhou Texhong Yinfeng Plant	Xuzhou Texhong Yinfeng	Yarn	79,652	52,684	—	—
Xuzhou Texhong Yinlian Plant	Xuzhou Texhong Yinlian	Yarn	105,635	139,384	—	—
Nantong Century Texhong Plant	Nantong Century Texhong	Yarn	31,403	49,296	—	—
Nantong Texhong Yinhai Plant	Nantong Texhong Yinhai	Yarn drawing	10,483[4]	21,280	—	—
Changzhou Texhong Plant . .	Changzhou Texhong Textile	Yarn and grey fabrics	87,823	71,760	101	—
Taizhou Century Texhong Plant	Taizhou Century Texhong	Grey fabrics	57,020	—	288	—
Taizhou Texhong Yintai Plant	Taizhou Texhong Yintai	Grey fabrics	—[5]	—	166	—
Texhong Textile Plant Taizhou	Texhong Textile Taizhou[2]	This factory will be merged with Taizhou Texhong Weaving soon	—[6]	—	—	210
Taizhou Texhong Weaving Plant[3].	Taizhou Texhong Weaving	Grey fabrics, under government informal request for relocation or close down.	25,435			
Zhejiang Texhong Plant. . . .	Zhejiang Texhong.	Grey fabrics	14,087	—	192	—
Texhong (Vietnam) Plant . . .	Texhong (Vietnam) Textile Joint Stock Company	Yarn	138,779	208,160	—	—

(1) Although we have 14 legal entities with factory premises and/or production facilities in the PRC, Texhong Textile Taizhou is currently dormant, Xuzhou Century Texhong is performing subcontracting services for another of our subsidiaries and Texhong Textile (Suining) is leasing the factory premises from another subsidiary for production. Therefore, we consider 11 production bases in the PRC as being in active operation.

(2) The business license of Texhong Textile (Taizhou) Co., Ltd. expired on October 19, 2010.

(3) In November 2010, we had an informal discussion with the Taizhou municipal government in which it suggested that we relocate or close down our Taizhou Texhong Weaving plant. We expect that we will either complete the close down or relocation of this plant by 2011.

(4) The amount represents the gross floor area for the new factory premises leased on September 16, 2010.

(5) The premises are leased from Taizhou Century Texhong.

(6) The premises are leased from Taizhou Texhong Weaving.

In addition to our production bases in China, we have a production plant in Dong Nai, Vietnam which has a production capacity of approximately 210,000 spindles, consisting of approximately 70,000 spindles for Phase I, which commenced full commercial production in November 2007 and approximately 40,000 spindles for Phase II, which commenced full commercial production in November 2008. We also installed new cotton combing and carding machinery at our Vietnam facility in late 2009 to increase production capacity of denim yarns. We are in the process of further expanding our Vietnam facility by adding approximately 190,000 spindles, which we expect will begin full commercial production in the first quarter of 2011.

Production of yarn and fabrics requires different types of machinery and equipment. Generally, subject to the introduction of newer models and technology, machinery and equipment for yarn and fabrics production can be used for approximately 15 to 20 years.

Our centralized sales and marketing team is responsible for determining the optimal yarn and fabric products allocation. Our production department focuses on the improvement of cost structure and product quality to enhance our profitability. When our fabric weaving mills receive sales orders, the production department will determine whether the fabric weaving mill should use the yarn produced in-house or yarn produced by an independent yarn spinning mill based on the price and quality of the yarn required. When specific yarn is required for producing special fabric requested by customers, we may utilize our product development capability to produce specific yarn required for such special fabric requests.

Maintenance

We periodically perform maintenance of our yarn facilities every six months and our fabrics facilities every twelve months, which usually requires one full day. Maintenance is generally staggered across production facilities to avoid simultaneous shutdown of facilities. We have not experienced any material or prolonged stoppage of our facilities due to equipment or facility failure and have been able to run our production facilities at close to full capacity.

Quality Control

We have implemented a quality control system at each of our production facilities. Apart from random checking of raw materials and finished products, quality control measures are also in place throughout the production process. Our quality control department, which is centralized for the Group, is responsible for quality control and quality assurance of the production and for setting up and implementing quality control measures which meet the requirements of our customers. As of October 31, 2010, our quality control department consisted of 236 personnel.

Production control

We employ a quality control system throughout the production process. Each staff is responsible for a specific quality control procedure. The wages of production staff are based on the quality and the quantity of the products they actually produce. Sub-standard products are not counted in the calculation of the staff's output of products.

Finished products

The quality control department also conducts examinations on our finished products. Samples of our fabric products and yarn products will be tested by the quality control department. The quality control staff is responsible for ensuring that our standards have been maintained. Products with inferior quality are reprocessed.

Competition

The PRC and global textile manufacturing industry is fragmented with intense competition and no dominant player. Many companies compete only in limited segments of the textile market. See "Industry Overview—The Chinese Apparel Retail and Consumer End Market." Nevertheless, we believe the textile sector producing high-end textile products is less competitive due to higher capital investment required. We compete with large integrated enterprises, as well as small, niche or regional manufacturers. Textile competition is based on a number of factors, including price, product styling and differentiation, quality, response time and customer service.

Competition for our stretchable core-spun yarn comes mainly from manufacturers in Anhui, Zhejiang and Jiangsu Provinces. Although these enterprises in general have much smaller production scale than we do, they are able to offer their products at lower prices. Competition for our spandex stretchable grey fabrics mainly comes from manufacturers in Zhejiang and Jiangsu Provinces who likewise sell products at cheaper prices than we do. Competition for our denim yarn products mainly comes from manufacturers in the Jiangsu Province. We believe that, although there are no specific industry statistics available to determine the current market share of these competitors, these local enterprises will try to expand and enlarge their share in this market. See "Industry Overview—Competition."

The PRC textile industry has been going through consolidation in the last decade, and textile manufacturers have tried to achieve large scale production through mergers and acquisitions. Stretchable textile products were commercialized in the PRC market in the 1990s. As spandex textile products and denim products become more popular in the PRC, competition in these market segments will increase in the foreseeable future. Nevertheless, we believe we are able to compete effectively against our competitors due to the following strengths:

- our established market position as one of the leading manufacturers of core-spun yarns in the PRC;
- our low-cost advantages derived from our production operations in Vietnam;
- our strong focus and track record in expanding our core competence in the large scale manufacturing of core-spun yarn;
- our ability to differentiate and adapt our products to changing market conditions and customer demand;
- our operating efficiency;
- our diversified and stable customer base and established relationships with our largest customers; and
- our experienced management team.

See "—Competitive Strengths."

Product Development

We place strong emphasis on product development. Our research and development department is based in Changzhou, PRC. As of October 31, 2010, our product development department consisted of 63 personnel. Our product development team focuses primarily on developing and improving a wide variety of yarn products.

Our product development department usually initiates the product development process through discussions with our suppliers and customers. By working closely with our suppliers, we can keep informed of the latest development of raw materials and their usage and functionality. Our customers frequently provide samples or ideas to see whether manufacturing of certain types of fabric is feasible. Upon receiving ideas or samples from our suppliers and customers, our product development department will determine the feasibility of transforming the ideas into actual production and formulate product configuration and design. Samples of such products will be produced for further testing until the customers' requirements have been met. Our production department will then commence mass production of such products according to the standards specified by our customers.

The product development department is also responsible for conducting feasibility studies on new materials and new technologies which can be used in the production of stretchable core-spun yarn and stretch fabrics. Once the new material has received market acceptance, we can immediately manufacture the products ahead of other competitors in the same industry. Apart from the development of new materials, the product development department also undertakes studies to improve existing production technologies and operational efficiency, to keep updated with technological advancements in the industry and to improve the quality and variety of our products. We also attend industry exhibitions and conferences and review industry journals to monitor trends and new technologies available in the industry.

In addition, we aim to continue to work in cooperation with leading enterprises to apply new fiber technologies to our production of yarns and fabrics. For example, we intend to enter into a new agreement with Invista in 2011 to be the exclusive manufacturer of yarn products with their FREEF!T™ fiber.

Our research and development costs were approximately RMB0.3 million, RMB6.7 million, RMB8.9 million and RMB10.5 million for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, respectively.

Employees and Employee Benefits

As of October 31, 2010, we had a total of 13,640 employees. The distribution of our workforce as of December 31, 2007, 2008 and 2009 and as of October 31, 2010, is as follows:

	As of December 31,			As of October 31,
	2007	2008	2009	2010
Manufacturing plants across China	13,580	10,349	10,528	10,576
Production base in Vietnam	1,192	2,682	2,887	2,882
Regional headquarters in Shanghai	176	172	176	174
Offices in Hong Kong and Macau	4	4	5	8
Total headcount	14,952	13,207	13,596	13,640

For the years ended December 31, 2007, 2008, 2009 and the ten months ended October 31, 2010, we incurred total staff costs of RMB 276.0 million, RMB302.1 million, RMB313.2 million and RMB285.2 million, respectively.

We offer our staff competitive remuneration schemes. In addition, discretionary bonuses may also be granted to eligible staff based on our performance as well as individual performance. We also have a share option scheme for our directors and eligible employees and we may grant options in the future in accordance with the terms of such scheme. As of October 31, 2010, no option has been granted under the share option scheme.

In accordance with applicable PRC regulations relating to social insurance, we participate in state-sponsored defined contribution retirement plans for our employees. We currently contribute amounts equal to 20% to 34.5% of our employee's base salary (subject to a cap) at rates stipulated by the relevant municipal governments.

We also participate in other employee social plans for all of our employees in mainland China and Vietnam, including medical, housing and other welfare benefits, which are organized and administered by the respective governmental authorities.

In addition, we have arranged for our Hong Kong employees to join the Mandatory Provident Fund Scheme, under which we and our Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the fund legislation, subject to a cap of HK$1,000 per month.

We have experienced labor strikes in the past. See "Risk Factors—We have been subject to labor disruptions and could be subject to other labor disruptions in the future that could interfere with our operations and materially and adversely affect our business, results of operations, financial condition and prospects."

We regularly arrange training programs for employees in our production plants, and new employees are required to attend training courses before officially starting work. We also arrange for certain of our Vietnam employees to also attend training courses at our PRC production plants.

Health, Safety and Environmental Matters

We place emphasis on the health and safety of our employees, and we are required to comply with a range of health and safety laws and regulations in the PRC and Vietnam. Our workplace safety procedures and education are handled by our human resources department. We generally review our health and safety standards on a periodic basis in the PRC and Vietnam and our operations are subject to government authority inspections. We maintain a health and safety manual for our employees and our employees undergo periodic safety training.

Our operations and properties are subject to a wide variety of environmental laws and regulations in the PRC and Vietnam. These include laws and regulations relating to waste disposal, emission levels, waste discharges, wastewater treatment and noise levels resulting from our operations. Such laws may apply to conditions at properties presently or formerly owned or operated by an entity or its predecessor. Although the nature of our operations expose us to a risk of claims with respect to such matters and we cannot assure you violations of such laws and regulations have not occurred or will not occur, for the years ended December 31, 2007, 2008 and 2009 and the ten months ended October 31, 2010, we believe our plants have complied in all material respects with the relevant PRC and Vietnam environmental protection laws and regulations and have obtained the requisite approvals from the relevant government authorities. During these periods, we have not received any notification from the relevant authorities regarding any material breach of the applicable environmental protection laws and regulations.

We periodically carry out analysis and third-party inspections at each plant. Compliance with relevant laws and regulations is the responsibility of the respective managers of the production facilities, who are directly responsible to our senior management.

See also "Summary of Relevant Laws and Regulations—Policies on environmental protection in the textile industry" and "Summary of Relevant Laws and Regulations—Laws and regulations relating to environmental protection."

Insurance

Our operations are subject to operating risks, including fire, earth movement, flood, machinery and equipment breakdown, public liability, product liability, employer's liability and cargo damage. These risks and hazards could result in damage or destruction to production facilities, personal injury, environmental damage and business interruption.

To mitigate certain of these risks, most of our subsidiaries maintain comprehensive insurance against damage incurred in its fixed assets and non-fixed assets (inventory). These insurance policies protect our interests in the cases where our assets and machinery are damaged and where our raw materials and goods are damaged during transportation. Most of our subsidiaries also maintain compulsory vehicle insurance for company vehicles.

Consistent with what we believe to be standard practice in our industry in China, we do not currently maintain insurance coverage for third-party liability, business interruptions or environmental damage arising from accidents on our property or relating to our operations. We also do not maintain any insurance coverage against certain natural disasters, such as earthquakes. See "Risk Factors—Risks Relating to our Business and the Industry—Our insurance coverage may not adequately protect us against operating hazards, major disruptions or damages at any of our production facilities and natural disasters and any resulting losses."

Real Property

The majority of our production facilities are located in the PRC. In the PRC, all land is owned by the government, but we have been granted the industrial land use rights for the property in Jiangsu and Zhejiang Provinces, where our production facilities are located for a period of 50 years from the date of grant. The expiration of our land use rights authorised for industrial use ranges from 2050 to 2059, except for the land use rights owned by Xuzhou Texhong Times granted for different uses which are for 40 years and 70 years, respectively. For details of each of the properties, see "—Production Facilities."

Below is a table indicating our land use rights as of October 31, 2010:

	Land Use Right			
Owner	**Certificate No.**	**Address (area)**	**Expire Date**	**Authorized Use**
Changzhou Texhong Textile	Chang Guo Yong (2007) No. 0230722	No. 2 Changqi Road Nanyang Street (113,479 square meters)	January 9, 2057	Industrial
Jiangsu Century Texhong	Sui Guo Yong (2004) No. 0967	No. 33, West Yuanfu Street, Suicheng Town (85,739 square meters)	July 28, 2050	Industrial
Nantong Century Texhong	Dong Guo Yong (2002) No. 400026	No. 2 West Jianghai Road, Shuangdian Town (59,233 square meters)	September 23, 2052	Industrial
Taizhou Century Texhong	Taizhou Guo Yong (2009) No. 1849	No. 33, Tianhong Road, Taizhou Economic Development Zone (151,599 square meters)	July 19, 2052	Industrial

	Land Use Right			
Owner	**Certificate No.**	**Address (area)**	**Expire Date**	**Authorized Use**
Taizhou Texhong Weaving	Taizhou Guo Yong (2000) No. 0554	No. 22, Baisui Lane, Taizhou (23,005 square meters)	December 13, 2050	Industrial
Xuzhou Texhong Times.	Sui Tu Guo Yong (2009) No. 96145	East to Texhong Textile City, West to Xiaoyan River, South to planned Wenhui Road (105,069 square meters)	October 13, 2059	Industrial
Xuzhou Texhong Times.	Sui Tu Guo Yong (2009) No. 96144	East to Tianhong Avenue, West to Xiaoyan River, North to Yongxue Road (37,698 square meters)	October 13, 2049 for commercial part and October 13, 2079 for residential part	Commercial and residential
Xuzhou Texhong Times.	Sui Guo Yong (2005) No. 012576	Tongchang Village, Pan Village (122,468 square meters)	March 3, 2055	Industrial
Xuzhou Texhong Yinfeng	Feng Guo Yong (2007) No. 9381	Feng County Economic Development Zone, Xuzhou (130,759 square meters)	December 30, 2056	Industrial
Xuzhou Texhong Yinlian	Xu Tu Guo Yong (2007) No. 1036	North to Yangshan Road, Xuzhou Economic Development Zone (175,052 square meters)	April 9, 2056	Industrial
Zhejiang Texhong . .	Pu Guo Yong (2001) No. 01-2358	East Renmin Road, Puyang Town (41,065 square meters)	May 17, 2050	Industrial

We also hold land use rights in respect of a parcel of land with 96,217 square meters in Dong Hai, Vietnam. The land use rights will expire in March 2053. We also currently sublease a parcel of land of approximately 200,000 square meters in Dong Nai, Vietnam, to which we expect to obtain the land use rights in January 2011 after exercising our purchase option under the sublease.

Intellectual Property Rights

We use a number of trademarks and trade names in connection with our business. As of October 31, 2010, we had registered the trademark “新竹” (“Xin Zhu”) and certain utility models in the PRC. Our Vietnam subsidiary has registered the following trademarks in Vietnam: “,” “TEXHONG” and “天虹” (“Tianhong”). Nantong Texhong Yinhai also holds patent rights for 10 years under PRC law for certain utility models with respect to textile production techniques, such as the use of special metal fibers for use in textile production.

Legal Proceedings

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business. We believe that these proceedings will not have a material adverse effect on our business, financial condition or results of operations. For instance, the Nantong tax authority may impose a fine of RMB5,711.11 on Nantong Century Texhong and the Nantong Custom may impose a fine of RMB1,100,000 on Nantong Century Texhong. As of October 31, 2010, we were not aware of any litigation, arbitration or administrative proceedings pending or threatened against any member of our Group or any of our directors which could have a material adverse effect on our business, financial condition or results of operations.

Laws and Regulations Relating to the Textile Industry in the PRC

Textile industry guiding policies

Pursuant to the *Notice on the Relevant Issues of In-depth Reform and Structural Adjustment and Relief of the Textile Industry* (Guofa [1998] No. 2) issued by the State Council in 1998, the PRC government acted in accordance with market demand by eliminating out-of-date spindles in order to improve technical levels and product quality. During the three-year period from 1998 to 2000, the domestic textile industry successfully eliminated approximately 9.4 million out-of-date spindles.

According to the *2002 Guiding Opinion on the Total Quantity Regulation and Structural Adjustment Work* (Guojingmaoyunxing [2002] No. 50), the PRC government, on the one hand, continues the policy of eliminating out-of-date machines and to control the total output of the textile industry, and on the other hand, relies on advancements in technology and system innovations to enhance its international competitiveness as well as to expand the export market of textile clothing.

According to the *Opinions on the Implementation of Transforming and Upgrading Traditional Industries by High & New Technology and Advanced Applied Technology* (Guojingmaojishu [2002] No. 247) issued by the National Economic and Trade Commission in 2002, the PRC government encourages the use of new technologies and advanced technologies in the textile industry.

According to the *Catalogue for the Guidance of Foreign Investment Industries* issued in 2007, the PRC government encourages foreign investors to invest in the manufacture of special or top grade textiles.

According to the *Circular on the Adjustment Policies to Increase Cotton Spinning Productivity* issued by National Development and Reform Commission in August 2004, the PRC government abolished the permit system for the purchase of cotton spinning mule frames to encourage technology promotion, upgrades in the textile industry, and to enhance the development of the manufacturing industry of textile machineries

According to the *Notice of Opinions Concerning Accelerating Structure Adjustment and Industrial Upgrade of the Textile Industry* (Fagaiyunxing [2006] No. 762), the *Restructuring and Revitalization Plan of the Textile Industry*, and the *Guiding Opinions of the Ministry of Industry and Information Technology of the PRC on Promoting Industrial Transfer of the Textile Industry*, the PRC government encourages textile enterprises to improve self-directed technical innovation capability, accelerate technical reform and eliminate backward production capacities.

Policies on textile production and cotton circulation

Since 1985, China has carried out reforms of its cotton circulation system from a unified purchase system by the state (with the exception of a few self-use of the farmers) to a combined purchase system comprising cotton orders by contracts and cotton purchases from the market. According to the *Ten Policies on Further Activation of Countryside Economy* issued by the Central Committee of the Communist Party of China and the State Council, China has taken the measure of cotton order by contracts, which means the commerce department would give orders on cotton before the planting season of cotton. The orders are designated by the PRC government and only the remaining cotton which is not ordered is permitted to be sold freely in the market. In 1992, according to the *Opinions on the Reform of the Cotton Circulation System*, China conducted further reforms on its cotton circulation system. The key points of the reforms were (i) the enterprises in the cotton industry designated by the PRC government could sign cotton purchase contracts with farmers; (ii) through cotton wholesale markets or other channels, textile enterprises and cotton trade enterprises could sign cotton purchase contracts directly; (iii) the selling price of cotton could be negotiated freely by the selling and purchasing parties; and (iv) the PRC government allowed other enterprises with cotton operation qualifications to purchase and process cotton directly.

According to the *Decisions on Further Deepening Reform on the Cotton Circulation System*, further reforms to the cotton circulation system were implemented by the PRC in 1998. Such reforms were mainly aimed at (i) determination of cotton prices by the market under the government's macroscopic directions; (ii) implementation of a cotton purchasing and processing assessment system under which enterprises with qualifications were allowed to engage in the cotton purchase and processing business directly; and (iii) the development of a cotton circulation market and the establishment of an information system of cotton supply and demand, as well as cotton prices in the market.

According to the *Opinions of the State Council on Further Deepening the Cotton Circulation System Reform* (Guofa [2001] No. 27), China continues to reform its cotton circulation system. The primary aim of the reforms is to strengthen the administration of purchases and processing of cotton and the cotton market. The government encourages qualified enterprises in the cotton industry to purchase cotton either directly or through agents from the main cotton-producing regions. Enterprises engaged in the cotton business are required to abide by the provisions of the *Provisional Measures for the Recognition of Qualification for Processing and Administration of Cotton Market* and shall apply to provincial governments for assessment of their qualifications.

According to the *Circular on Printing and Distributing the Work Plan of the Rectification of Cotton Circulation Order* (Fagaijingmao [2004] No. 2123), during the period from October 2004 until early 2005, the reforms of cotton circulation within the national coverage were carried out by thorough examination of the qualifications and operations of the enterprises which purchase and process cotton, and reorganizing the cotton transaction market for better cotton circulation orders.

Textile export policies

According to the *PRC Regulations on the Administration of Import and Export of Goods*, the administrative measures which China has taken to control export of products mainly include export quota licenses, export licenses, state-operated trade restrictions, designated trading and passive export quotas.

For a long period of time, China used to take relatively stringent administrative measures to control textile exports. Since China's admission to the WTO in 2001, such administrative measures to control textile exports have been weakened and in some cases, partially abolished. According to the *2003 Catalogue of Commodities Subject to Export License Administration*, China no longer implements export quota licenses controls on cotton textiles, but retains export quota license controls on cotton.

According to the *2010 Catalogue of Commodities Subject to Export License Administration*, China retains state-operated trade controls on cotton.

According to the *No. 103 Announcement of Ministry of Commerce and the General Administration of Customers in the PRC*, China has abolished the passive quota on export textile products as of January 1, 2005.

Textile import policies

According to the *PRC Regulations on the Administration of Import and Export of Goods*, China's administrative measures to control import products mainly include import quotas, import licenses, import tariff quotas, state-operated trade restrictions and designated trading.

Since China's admission to the WTO in 2001, the above administrative measures to control textile imports have been weakened, and in some cases, partially abolished. However, according to the *Catalogue of Goods Subject to State-operated Import Trade Administration*, China still retains state-operated controls on the trading of cotton.

According to the *Provisional Methods for the Administration of Import Tariff Quotas of Agricultural Products*, China implements tariff quota controls on cotton imports. Specifically, a preferential tariff rate of 1% is imposed on cotton imports which are within the quota; however, for the rest of cotton imports, those from the most-favored countries are levied a tariff rate of 40% (tax code column 52030000) and interim tariff rate (sliding duty, tax code column 52010000), and all others are levied a tariff rate of 125%, based on the *Notice on the Implementation Plan of Tariffs in 2010* (Shuiweihui [2009] No. 28). According to the *2011 Amount, Application Requirements and Distribution Principles of Tariff Quota on Grain and Cotton Imports*, in 2011 the tariff quota of cotton import is 894,000 tonnes, of which 33% are imported by state-operated trade.

According to the *Mainland and Hong Kong Closer Economic Partnership Arrangement*, a zero tariff policy is implemented on a variety of yarn, fabrics, textiles and garments whose country of origin is Hong Kong. According to the *Mainland and Macao Closer Economic Partnership Arrangement*, a zero tariff policy is implemented on a variety of yarn, fabrics, textiles and garments whose country of origin is Macao.

Laws and regulations relating to environmental protection

China has adopted extensive environmental laws and regulations with national and local standards for emissions control, discharge of waste water and storage and transportation, treatment and disposal of waste materials. At the national level, the relevant environmental protection laws and regulations include the *PRC Environmental Protection Law* (the "Environmental Protection Law"), the *PRC Law on the Prevention and Control of Air Pollution,* the *PRC Law on the Prevention and Control of Water Pollution,* the *PRC Law on the Promotion of Clean Production,* the *PRC Law on the Prevention and Control of Noise Pollution,* the *PRC Law on the Prevention and Control of Solid Waste Pollution,* the *Administrative Regulations on the Levy and Use of Discharge Fees* and the *Measures for the Administration of the Charging Rates for Pollutant Discharge Fees.*

Pursuant to the Environmental Protection Law, Ministry of Environmental Protection (the "MEP") is empowered to formulate national environmental protection standards and monitor China's environmental protection system at the national level. Local environmental protection authorities may set local standards stricter than national standards, and enterprises must comply with the stricter of the two sets of standards. Pursuant to the newly revised *Measures for the Archival Administration of Local Standards for Environmental Quality and Pollutant Discharge,* issued by the Ministry of Environmental Protection on January 28, 2010, governments in all provinces, autonomous regions and municipalities or their delegated administrative departments on environmental protection should file a record with the Ministry of Environmental Protection within 45 days of the date of releasing local standards for environmental quality and pollutant discharge.

The Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazardous materials to establish an environmental protection responsibility system and adopt environmental protection measures in the course of its operations to control the disposal of waste materials. Any entity operating a facility that discharges pollutants, whether in the form of emissions, water, noise or other materials, must submit a pollutant discharge declaration statement setting out details of the treatment of such pollutants, upon which the local environmental protection bureau issues a pollutant discharge license to the entity specifying its permitted discharge amount subject to the payment of discharge fees. If an entity discharges more than the amount permitted under the pollutant discharge license, it shall pay a fee for the excessive discharge and shall assume responsibility for eliminating and controlling the pollution it caused. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a specified period of time, a fine may be imposed, and the enterprise may be ordered to suspend or close down its operations.

According to the *PRC Environmental Impact Assessment Law*, enterprises are required to register or file an environmental impact assessment with the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. A new, expanded or renovated facility will not be permitted to commence operation unless the local environmental protection bureau has inspected and determined to its satisfaction that the requisite environmental protection equipment has been properly installed at the facility.

According to the *Notice of the Ministry of Environmental Protection of the PRC on Reinforcing the Examination of Clean Production of Key Enterprises* (Huanfa [2008] No. 60) issued on July 1, 2008, for entities which have passed the examination and assessment of clean production, the relevant examination and assessment results shall form the basis of their discharge standards and shall be stated in their discharge permits. Entities failing to achieve their discharge reduction targets shall be subject to mandatory clean production examination to ensure the fulfillment of the discharge reduction target.

According to the *Notice of the Ministry of Environmental Protection of the PRC on the Implementation of Limitation of Excessive Production Capacity and Development in Certain Industries and their Healthy Development* (Huanfa [2009] No. 127), issued on October 31, 2009, projects with respect to which the environmental impact assessment report for the regional industry plan has yet to start, is still pending approval or has been substantially revised shall not be accepted or approved. In principle, environmental impact assessment reports of expansion projects in industries with excessive production capacity, shall not be accepted and approved. Environmental impact assessment reports of construction projects essential for the phase-out of obsolete facilities and energy-saving and discharge reduction completed before the publication of the list of investment projects approved by the State shall be submitted to the Ministry of Environmental Protection for approval.

Laws and regulations relating to energy conservation and emission reduction

On June 3, 2007, the State Council published the *Working Plan for Energy Conservation and Emission Reduction*, which provides that by the end of the Eleventh Five-Year Plan (2006-2010), the level of total energy consumption in terms of gross domestic production shall be reduced by 20%, and the total emission of major pollutants shall be reduced by 10%.

On August 28, 2007, MEP and the National Development and Reform Commission (the "NDRC") jointly issued the Notice on Accelerating the Examination and Approval of Environmental Impact Assessment for Investment Projects of Energy Conservation and Emission Reduction (Huanban [2007] No. 111), setting out policies for accelerating the examination and approval of environmental impact assessment for key energy conservation and emission-reduction projects, ranging from water conservation industrial projects, projects of integrated utilization of resources and waste water treatment. On October 28, 2007, the Standing Committee of the National People's Congress adopted the revised *PRC Energy Conservation Law* (the "Energy Conservation Law") to implement an energy conservation evaluation and review system on all fixed-asset investment projects. Under the revised Energy Conservation Law, governmental authorities should not approve the construction of any projects that are inconsistent with mandatory energy conservation standards, while fully constructed projects that fail to meet mandatory energy conservation standards are prohibited from commencing operation or production. Outmoded production facilities, equipment and production techniques which exceed mandatory energy-consumption levels should be prohibited and eliminated. In addition, manufacturers that have a high energy-consuming production process are subject to an energy conservation quota. On November 17, 2007, the State Council approved and forwarded the *Notice on the Implementing Proposals and Measures on the Compilation, Testing and Verification of Statistical Data Relating to Energy Saving and Emission Reduction* (Guofa [2007] No. 36), which specifies that comprehensive and standardized systems shall be set up to compile, test and verify statistics relating to energy saving and emission reduction in a scientific manner (the "Three Systems"). It stipulates that the incorporation of the progress of reducing energy consumption and eliminating pollution and emission into the integrated economic and social development assessment system of various regions is an assurance of the fulfillment of the energy saving and emission reduction objectives under the Eleventh Five-Year Plan. Specific proposals and measures have also been provided for in the notice in connection with unit's GDP and total amount of key major pollutants for the Three Systems. On November 27, 2007, the NDRC issued the *Notice on the Implementation of Energy Conservation and Emission Reduction for Small to Medium Sized Enterprises* (Fagaiqiye [2007] No. 3251). On April 14, 2010, the Ministry of Industry and Information Technology of the PRC issued the Guiding Opinions on Strengthening Energy Conservation and Emission Reduction for Small to Medium Sized Enterprises (Gongxinbuban [2010] No. 173). On November 23, 2007, the China Banking Regulatory Commission issued the *Guiding Opinions on the Credit Work for Energy Conservation and Emission Reduction* (Yinjianfa [2007] No. 83), which requires banking institutions to cease all credit support for all new construction projects that fall within the restricted or eliminated categories under the State industrial policies, except that entities in the restricted category which have been authorized by the State to upgrade production facilities may continue to receive credit support.

On August 29, 2008, the *PRC Circular Economy Promotion Law* was published which came into effect from January 1, 2009. It regulated and encouraged the reduction, reuse and recycling in the process of production, circulation and consumption to promote circular economic development. The law required that a supervision management system should be implemented for key enterprises from the steel, nonferrous metal, coal, electricity, petroleum processing, chemical, building materials, construction, paper production, printing and dyeing industries with annual energy consumption and water consumption exceeding the prescribed national level.

On July 19, 2009, the State Council issued the *Notice on the Arrangement of Energy-saving and Emission-reduction Work in 2009* (Guobanfa [2009] No. 48), which required a stringent control of blind expansion of high energy-consuming and high emission industries and a strict implementation of national industry policy and project review regulations in the restructuring and revitalization planning of major industries such as steel, automobile, shipbuilding, petrochemical, light industry, textiles, nonferrous metals, equipment manufacturing, electronic information and logistics. It also strengthened reviews and assessments on land use, energy-saving and environmental impact to strictly control expansion of high energy-consuming and high emission industries. The notice intensified efforts in eliminating obsolete capacity and announced the list of companies phasing out outdated capacity. It also promoted the merger and restructuring of outmoded corporations by large-scale enterprises, implemented electricity incentive policies and policies for relocating staff from eliminated capacity, issued guidance for energy-saving equipments and a list of eliminated high energy-consuming equipment to promote its replacement and develop circular economy.

According to the *Notice of the Ministry of Industry and Information Technology of the PRC on Reinforcing the Energy-saving Assessment and Review of Industrial Fixed Asset Investment Projects* (Gongxinbujie [2010] No. 135) effective on March 23, 2010, construction entities shall submit an independent energy-saving assessment report prepared by an energy-saving assessment firm to the appropriate provincial department for endorsement before submitting feasibility study report of industrial fixed-asset investment projects, application for approval or registration of projects. Energy-saving review endorsement is one of the requisite conditions for the approval, verification and filing of projects and their commencement.

In order to achieve the Eleventh Five-year goal of reducing unit GDP energy consumption rate by 20%, the *State Council issued the Circular on Further Strengthening Work to Ensure Realization of the "Eleventh Five-year" Goal of Energy Saving and Carbon Emission Reduction* (Guofa [2010] No. 12) on May 4, 2010. The Circular requires (1) strengthening the use of energy management; (2) deepening the management of key energy-consumption units; (3) promoting energy conservation and emission reduction in key areas; (4) promoting energy conservation technology and products vigorously; (5) perfecting the economic policy of energy-saving and emission reduction; (6) accelerate the improvement of regulations and standards, and establish methods of energy conservation assess and review management for fixed assets investment products as soon as possible; (7) intensifying inspection and supervision; (8) carrying out the national activities of energy conservation and emission reduction; and (9) implementing early warning control on the energy conservation and emission reduction.

Laws and regulations relating to safety

According to the *PRC Safe Production Law* (the "Safe Production Law") which took effect on November 1, 2002, the State Administration of Work Safety is charged with the nationwide administration of production safety. The Safe Production Law provides that manufacturers must satisfy the standards imposed by the State or the relevant industry. Manufacturers that do not meet the safe production conditions may not engage in production activities. Manufacturers shall provide education and training for their employees on safe production rules and regulations and safety procedures, and help employees to acquire the safety operational skills required for their work. Prior to the adoption of any new process or technology, the use of any new facilities or the upgrade and expansion of existing facilities, manufacturers and operators must have a full understanding of the features of the relevant technology and adopt effective safety and precaution measures. They should also educate and provide special training for their workers on production safety.

The *Provisional Rules on the Investigation and Handling of Safety Production Accidents,* effective as of February 1, 2008, provides that all manufacturers and operators shall establish a comprehensive system for the investigation and handling of any safety production accident and a comprehensive system for reporting and granting awards for lodging reports on safety production accidents. It is prescribed in the provisional rules that such manufacturers and operators shall individually compile statistics of their safety production accidents every quarter and at the end of every year. After analyzing those statistics and the handling of the safety production accidents, the manufacturers and operators shall submit their individual written statistics and analytical report no later than fifteen days before the following quarter and before January 31 of the following year to the safety administration and supervision authority as well as other relevant departments. The manufacturers and operators are also required to strengthen their preventive measures against natural disasters.

In accordance with relevant national laws and regulations, including the *PRC Labor Law* and the *PRC Law on the Prevention and Treatment of Occupational Diseases*, employers must ensure that their employees' working environment complies with State standards and requirements on occupational safety and health conditions of the employees. Employers should also provide employees with labor safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards.

The *PRC Labor Contract Law*, which took effect on January 1, 2008, provides that an employing unit shall consult with the labor union or the employee-representatives on an equal basis before making any decision on matters relating to the safety and health of employees.

Laws and regulations relating to foreign investment

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce and China Securities Regulatory Commission, promulgated the *Rules on Acquisition of Domestic Enterprises by Foreign Investors* (the "M&A Rules"), a new regulation with respect to the investments and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe the increased capital of a domestic company, and thus change the domestic company into a foreign-funded enterprise.

Since 2007, the Ministry of Commerce has successively published the *Changing Issues on Entrusting to Approve Certain Foreign-invested Enterprises*, the *Notice on the Decentralization of Foreign Invested Stock Company, Corporate Change and Approval issued by the Ministry of Commerce* (Shangzihan [2008] No. 50), the *Notice on Further Simplifying and Standardizing the Administrative License of Foreign Investment Issued by the Ministry of Commerce* (Shangzihan [2008] No. 21), the *Notice on Further Improving the Approval of Foreign Investment Issued by the Ministry of Commerce* (Shangzihan [2009] No. 7) and the *Notice of Issues on Auditing and Managing Certain Foreign Investment of Service Industry by Provincial Commerce Department and National Economic and Technological Development Zone Issued by the Ministry of Commerce* (Shangzihan [2009] No. 6), which further decentralized the approving authority on certain issues of foreign investment to provincial commerce departments.

On April 6, 2010, the State Council issued the *Several Opinions on Further Utilization of Foreign Investment* (Guofa [2010] No. 9). The opinions state that China will continue to open the door for foreign investment in high and new technology industries, service industries and new energy and environmental sector; strictly control the foreign investment in the sector of "two high one resource" (high pollution, high energy-consumption and resource-intensive) and overcapacity expansion projects; encourage foreign companies to set up regional headquarters, research and development centers, procurement centers, finance management centers, settlement centers, and cost and profit accounting centers; and encourage foreign capital equity participation and mergers and acquisitions to involve domestic enterprises' restructuring and support domestic and foreign strategic investors to invest in the companies listed in domestic stock market. In addition, these opinions further reform the foreign investment approval process under which the foreign investment projects with total investment of below US$300 million in the "Encouragement and Allowed" category will go to the provincial government for approval, unless otherwise provided by the *Catalog of Investment Projects subject to Government Approval*.

On May 4, 2010, the NDRC issued the *Notice of the National Development and Reform Commission on Delegating Powers on Approval of Foreign Investment Projects to Authorities at lower Levels* (Fagaiwaizi [2010] No. 914). Pursuant to the notice, projects that are categorized as encouraged or permitted in the Industry Catalog for Guiding Foreign Investment with a total investment of (including capital increase) no more than US$300 million, which were previously subject to approval by the National Development and Reform Commission, are now subject to approval by the provincial development and reform commission, unless otherwise provided by the Catalog of Investment Projects subject to Government Approval that they are subject to the approval of the relevant departments of the State Council. Foreign investors are encouraged to invest in high-end manufacturing industries, new and high technology industries, modern service industries, as well as energy and energy-efficient and environmental protection industries, to use new technologies, techniques, materials and equipment, and to renovate and promote traditional industries. Projects that are "high-polluting, high-energy-consuming and resource-dependent" or projects with poor and excessive production capacity shall be strictly restricted.

On June 10, 2010, the Ministry of Commerce issued the *Notice Relating to Further Delegation of Approval Authority for Foreign Investment* (Shangzifa [2010] No. 209), pursuant to which the establishment and alteration of foreign-investment enterprises with a total investment of below US$300 million falling within the encouraged category or permitted category and with a total investment of below US$50 million falling within restricted category in the Catalogue for the Guidance of Foreign Investment Industries shall be subject to the approval and management of the provincial commerce department. The establishment and alteration of a foreign investment enterprise with a total investment amount above US$300 million falling within encouraged category and requiring no national comprehensive balancing shall be subject to the approval and management of the provincial commerce department. The establishment and alteration of a foreign investment enterprise with registered capital below US$300 million, and of foreign-invested venture investment and management enterprises with total registered capital below US$300 million, shall be subject to the approval and management of the local approval authorities. Save as expressly stipulated by laws or regulations that the approval authority shall be the Ministry of Commerce, the establishment and alteration of foreign-invested enterprises in the service industry shall be subject to the approval and management of the local approval authorities in accordance with the relevant provisions. The alteration of foreign-invested enterprises established under the approval of the Ministry of Commerce, previous Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") and the relevant authorities of the State Council (excluding a single capital increment amounting to or exceeding a certain limit and associated with matters regulated in this notice as respect to foreign-invested enterprises in service industry) shall be subject to the approval and management of the local approval authorities.

Laws and regulations relating to taxation

In accordance with the previous *Foreign Investment Enterprise and Foreign Enterprise Income Tax Law of PRC* (the "FEIT Law") and the related implementation rules, foreign-invested enterprises (the "FIEs") were generally subject to Enterprise Income Tax at a state tax rate of 30% plus a local tax rate of 3% on PRC taxable income. Under the FEIT Law, foreign-invested manufacturing enterprises that were scheduled to operate for at least ten years were entitled to a two-year exemption and a three-year 50% rate reduction from the first profit-making year after absorbing all prior year tax losses, subject to approval from local taxation authorities. This regulation was abolished on January 1, 2008. According to the *Notice of State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax* (Guofa [2007] No. 39), foreign-invested manufacturing enterprises established before March 16, 2007 and eligible for the two-year exemption and three-year 50% rate reduction from the first profit-making year after absorbing all prior year tax losses, are still entitled to enjoy such preferential tax policies.

On March 16, 2007, the *Enterprise Income Tax Law of the PRC* (the "EIT Law") was enacted. On December 6, 2007, the *Implementation Rules of the EIT Law* (the "Implementation Rules") were published. The EIT Law and Implementation Rules came into effect on January 1, 2008. Under the EIT Law, in general, foreign-invested enterprises and domestic companies are subject to a uniform tax rate of 25%. In addition, the EIT Law provides a five-year transition period starting from January 1, 2008 to FIEs which were established and registered in the relevant Administration of Industry and Commerce prior to the promulgation date of the law, during which they are permitted to continue to enjoy their existing preferential income tax treatment until such treatment expires in accordance with its current terms. In December 2007, the State Council promulgated the Transition Period Implementation Rules, pursuant to which FIEs receiving their FIE approval certificate before the promulgation of the EIT Law may still enjoy their fixed-period tax exemption after the date of effectiveness of the EIT Law. Such fixed term of tax exemption and preferential treatment for FIEs which have not yet made a profit began on January 1, 2008.

Under the EIT Law and the Implementation Rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business).

According to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management" located within the PRC, such enterprise may be treated as a PRC tax resident enterprise and be subject to enterprise income tax at the rate of 25% on its worldwide income. According to the EIT Law and the Implementation Rules, the dividends received by a qualified PRC tax resident from its direct investment in another PRC tax resident are exempted from enterprise income tax. Such dividends do not include the investment proceeds from stock publicly issued and traded on a stock exchange which is held by a resident enterprise for not more than 12 consecutive months.

On April 22, 2009, the State Administration of Taxation issued the *Notice Regarding Matters on Determination of Chinese-controlled Enterprises Registered Abroad as Resident Enterprises under the Standards of the Effective Management Authority* (Guoshuifa [2009] No. 82), which stipulates that overseas Chinese-funded enterprises shall be deemed to be domestic resident enterprises and shall pay Enterprise Income Tax on their domestic and overseas income, if the following four conditions are fulfilled: (1) the premises in which the senior management personnel and senior management departments of the enterprise conduct daily production and operation management are located within China; (2) the enterprise's financial decisions (such as borrowings, loans, financing and financial risk management) and human resources decisions (such as appointment, dismissal and remuneration) are made by institutions or staff located within China, or are required to obtain approval from institutions or staff located within China; (3) the enterprise's main property, accounting books, company seals and the documents, such as minutes of board meetings and general meetings, are located or maintained within China, and (4) one half or more than one half of the enterprise's directors or senior management personnel with voting rights reside within China on a frequent basis. An overseas Chinese-funded enterprise for these purposes is an enterprise which is incorporated outside China in accordance with the laws of a foreign country and has enterprises or enterprise groups within China as its major controlling investors.

In accordance with the *Notice of the State Administration of Taxation on Issues Concerning the Adjustment of the Scope of Collection and Management of Income Taxes on Newly-established Enterprises* (Guoshuifa [2008] No. 120) and the *Supplementary Notice of the State Administration of Taxation on Clarifying the Scope of Collection and Management of Enterprise Income Tax on Non-resident Enterprises* (Guoshuihan [2009] No. 50), the Enterprise Income Tax affairs of foreign-invested enterprises, representative offices of foreign enterprises and other non-resident enterprises with offices and premises located within China are managed by the state taxation bureau; however, if a domestic unit or an individual makes payments to non-resident enterprises which do not establish offices or premises within China or to non-resident enterprises with established offices and premises within China but the payments are not related to such offices and premises, the collection and management of the Enterprise Income Tax on such payments shall be conducted by the state or local taxation bureau in which such domestic unit and individual are located.

The State Administration of Taxation has issued the *Notice of the State Administration of Taxation on Further Strengthening the Management of Taxation on Non-residents* (Guoshuifa [2009] No. 32), which requires that the income tax management of non-residents be strengthened and the taxation collection and management of non-resident enterprises be enhanced in eight ways, including: timely performing the reporting and settlement of income tax by non-resident enterprises, strengthening management of non-residents in respect of contracted construction and provision of taxable labor work, enhancing the withholding on income tax sources of non-resident enterprises as well as the management of duty-paid proof by foreign parties, and that the tax collection from non-resident enterprises shall be enhanced.

According to the *Interim Measures on Source-based Withholding of Income Tax of Non-resident Enterprises* (Guoshuifa [2009] No. 3) published on January 9, 2009 with retrospective effect on January 1, 2009, a non-resident enterprise (which is established under foreign laws without its *de facto* management body, establishment or premise in the PRC but that receives income derived from the PRC, or which, though having an establishment or premise in the PRC, receives income which is not related to such establishment or premise in the PRC) shall be subject to withholding tax on its interest and investment income, such as dividends, bonuses, rentals, concession fees, income from the disposal of assets and other incomes subject to enterprise income tax. Relevant tax will be withheld from the entity or individual with direct payment obligations in respect of the non-resident enterprise as stipulated in relevant requirement of the laws or contracts.

The Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Certain Issues regarding the Enterprise Income Tax Treatment of Corporate Reorganization* (Caishui [2009] No. 59) on April 30, 2009 with retrospective effect on January 1, 2008. This Notice is applicable to the tax treatment of transactions involving a material change to the legal structure or economic structure of an enterprise outside daily operation activities, including change in the legal form, debt restructure, equity acquisition, asset acquisition, or merger or split.

On October 27, 2009, the PRC State Administration of Taxation promulgated the *Notice of the State Administration of Taxation Concerning the Meaning and Determination of the Identity of "Beneficial Owner" in Tax Treaties* (Guoshuihan [2009] No. 601), which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-form" principle to determine whether or not to grant tax treaty benefits. The following factors, among other things, do not favor the applicant in determining whether he can be identified as a "beneficial owner": (1) the applicant is obligated to pay or distribute all or substantially all (for example, more than 60%) of his income to a resident in a third country (or region) within the stipulated time (for example, within 12 months from the date of receipt of the income); (2) apart from holding the property or right derived from the income, the applicant is not or is barely engaged in any other operating activities; (3) in case the applicant is an entity such as a company, the assets, scale and staff allocation of the applicant is relatively small and hardly equal the amount of income.

On December 10, 2009, the State Administration of Taxation issued *Notice on Strengthening the Management of Enterprise Income Tax Collection of Proceeds from Equity Transfers by Non-resident Enterprises* (Guoshuihan [2009] No. 698), pursuant to which a non-resident enterprise is required to pay the enterprise income tax in connection with proceeds from the alienation of the equity interests in Chinese resident enterprises (excluding the purchase and sale of the stock of Chinese resident enterprises on public securities markets) by such non-resident enterprise. Where the withholding agent fails or is unable to fulfill its withholding obligations, non-resident enterprises are required to file and pay the enterprise income tax to the competent tax authority supervising the Chinese resident enterprises whose equity interests are transferred (i.e., the tax authority in charge of collecting enterprise income tax of such resident enterprise) within seven days after the equity transfer date as agreed in the contracts or agreements (or after the date when the proceeds are actually obtained, if the transferors receive the proceeds of equity transfers in advance). The tax authority can adjust the taxable income using reasonable methods, provided that the income is reduced as a result of an equity transfer of Chinese resident enterprise by a non-resident enterprise to its related parties not applying the arm's-length principle. If the offshore investor (actual controlling party) indirectly transfers the equity interests in a Chinese resident enterprise via abuse of organization forms and certain enterprise income tax obligations are avoided without a reasonable business purpose, after being reported to higher authorities and reviewed by the State Administration of Taxation, the supervising tax authority can decide the nature of the transaction of such equity transfer according to its business substance and deny the existence of the offshore holding company which is used for tax planning purposes.

On May 6, 2010, the State Administration of Taxation issued the *Notice on Further Improving Taxes to Promote Energy Conservation and Emission Reduction* (Guoshuihan [2010] No. 180). The notice requires strengthening tax administration for the high pollution and high energy-consumption industry ("2 high") and the industries and enterprises with excess capacity. Tax authorities at all levels are required to closely monitor tax affairs of the related industries and enterprises, and consider "2 high" and the industries and enterprises with excess capacity as the focus for determining tax special inspection items themselves and carry out inspections carefully. During the process of carrying out tax inspections and case investigation, illegal activities such as making false declarations for defrauding export refund (exemption) and tax evasion may warrant serious investigation and punishment.

Laws and regulations relating to foreign exchange

Pursuant to the *Circular of SAFE on the Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Companies* (Huizongfa [2005] No. 75) promulgated by State Administration on Foreign Exchange (the "SAFE") on October 21, 2005 and effective as of November 1, 2005, PRC residents are required to register with the local branch of SAFE before establishing or controlling any company, referred to in the notice as a "special purpose offshore company," outside the PRC for the purpose of capital financing, and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC, which is referred to herein as a round-trip investment. Also, any change of shareholding or any other material capital alteration in such special purpose offshore company involving no round-trip investment shall be filed within 30 days starting from the date of shareholding transfer or capital alteration.

In accordance with the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises* (Huizongfa [2008] No. 142) and the *Approval from the General Affairs Department of the State Administration of Foreign Exchange for the Relevant Issues Concerning Domestic Equity Investment through Settlement of Capital by Foreign-invested Venture Capital Investment Enterprises* (Huizongfu [2008] No. 125) issued by the State Administration of Foreign Exchange on August 29, 2008 and November 14, 2008, respectively, RMB funds obtained by foreign-invested enterprises through foreign exchange settlement shall be used within the scope of operation approved by government authorities. Except for the foreign-invested venture capital investment enterprises which are approved by the Ministry of Commerce to make domestic equity investment using RMB funds obtained through foreign exchange within the scope of operation, the RMB funds obtained through foreign exchange settlement shall not be used for domestic equity investment. Except for foreign-invested real estate enterprises, the foreign-invested enterprises shall not purchase domestic properties (except for their own use) using RMB funds obtained through foreign exchange settlement.

On May 6, 2009, the State Administration of Foreign Exchange issued the *Notice on Adjusting the Approval Authority for Certain Foreign Exchange Businesses under Capital Items* to decentralize the authority of approval of foreign exchange capital items by decentralizing approval of certain foreign exchange business of capital items to local foreign exchange bureaus.

On October 12, 2009, the State Administration of Foreign Exchange issued the *Provisions on the Centralized Operation and Management of Foreign Exchange Funds by Domestic Enterprise's Internal Members* (Huifa [2009] No. 49), pursuant to which, internal members of the joint unit of corporate legal persons (exclusive of any financial institution) formed by the parent company, subsidiaries and other member enterprises or institutions, which are legally registered within the PRC with capital as a link, are allowed to utilize domestic self-owned foreign exchange funds through lending foreign-exchange funds to each other, implementing management of foreign currency funds pooling, developing the business of current settlement and sale of foreign exchange funds by internal finance companies.

According to the revised *Foreign Exchange Administrative Regulations of the PRC* issued and implemented on August 5, 2008, foreign currencies are prohibited from circulation and cannot be used for settlement in the PRC, unless otherwise allowed by the State. Overseas direct investments or overseas issuances or transactions of securities or derivatives by domestic entities or individuals shall be registered in accordance with the provisions of the foreign exchange administration department of the State Council. Where prior approval or filing is required, the approval or filing procedures shall be completed prior to the registration of the foreign exchange.

On June 23, 2010, the State Administration of Foreign Exchange issued *Notice on Adjusting the Examination and Approval Power for Some Foreign Exchange Businesses under Capital Accounts* (Huifa [2010] No. 29), pursuant to which the SAFE decided to adjust the examination and approval power for some foreign exchange businesses under capital accounts. For the individual case that complied with the principles of capital project management regulated by the existing law but not clearly defined in the relevant documents and operating procedures, the power to process in accordance with the advice of collective review conference shall remain with the SAFE branch where the enterprise is located, and the relevant approval documents shall be submitted to Capital Account Management Department of the SAFE; for domestic enterprises with payment of foreign loans and the repatriation of funds accounted for, the SAFE branch shall, under specific circumstances, grant the appropriate authority to the branch offices within its jurisdiction.

Pursuant to the *Interim Provisions on the Management of Foreign Debts* issued on January 8, 2003, "foreign debt" means debt denominated in foreign currencies and owed by domestic institutions to a non-resident. Foreign debt contracts signed by domestic enterprises are required to be registered with the SAFE, the international commercial loans under which shall come into effect only upon the completion of registration. According to the *Notice on Certain Issues of the Improvement of the Administration of Foreign Debts* (Huifa [2005] No. 74), a FIE can only incur foreign debt within the limitation of the balance between its registered capital and total investment amount. The conversion of foreign debt into Renminbi and repayment of foreign debt also require approval from SAFE. According to the *Notice on the Improvement of Foreign Exchange Settlement of Capital Account and Foreign Exchange Registration for Foreign-invested Enterprises* (Huifa [2004] No. 42), in order to use foreign debt for domestic payments requiring Renminbi, an enterprise is required to provide proof of the purpose of its usage such as a sales contract or payment notice, and the Renminbi converted from foreign debt is required to be directly deposited to the account of payee if the amount is more than USD 200,000. According to the *Notice of the State Administration of Foreign Exchange and the State Administration of Taxation on the Relevant Issues concerning Submitting Tax Certificates for Foreign Payments under Trade in Services and Other Items* (Huifa [2008] No. 64), when repaying the interest on foreign debt to a foreign lender, a Tax Paid Certificate will need to be obtained from the relevant PRC tax authority. The above requirements and procedures also apply to shareholder loans to FIEs.

According to the *Notice on Certain Issues on the Handling of Remittance of Profits, Dividends and Share Dividends in Designated Banks* (Huifa [1998] No. 29) and its amendment (Huifa [1999] No. 308) issued by SAFE, a FIE which intends to remit its profits, dividends and share dividends for the current year to a foreign investor is required to provide a series of documents to the banks designated by SAFE for the handling of such remittance, including the Tax Paid Certificate, an audit report on the profits, dividends and share dividends of the FIE for the current year, board resolutions, a Foreign Exchange Certificate and a Capital Verification Report. If a FIE seeks to remit its profits, dividends and share dividends from a previous year to a foreign investor, the FIE also needs to provide an audit report on the use of capital for the year when the profits, dividends and share dividends were made.

Laws and regulations relating to employee benefits

In accordance with relevant PRC national laws and regulations, including the *PRC Social Insurance Law* (which shall be effective as of July 1, 2011), the *Provisional Rules on Social Welfare Collection and Contribution*, the *Decision of the State Council on the Establishment of a Basic Medical Insurance System for Urban Staff and Workers* (Guofa [1998] No. 44), the *Decision of the State Council on the Establishment of a Unified Basic Old Age Pension Insurance System for Enterprise Staff and Workers* (Guofa [1997] No. 26), the *Decision of the State Council on Improving the Basic Old Age Pension Insurance System for Enterprise Staff and Workers* (Guofa [2005] No. 38), the *Regulations on the Work-related Injury Insurance*, the *Regulations on Unemployment Insurance*, the *Interim Rules on Maternity Insurance for Enterprise Staff and Workers* (Laobufa [1994] No. 504) and the *Regulations on the Housing Provident Funds Management*, PRC companies are required to register with the local housing fund administration, open housing fund accounts for their employees with a bank and contribute to a number of compulsory employee welfare schemes in respect of their employees, including basic pension insurance, basic medical insurance, unemployment insurance, job-related injury insurance, maternity insurance and a housing provident fund. If a company fails to do so within the prescribed time limit, it shall be subject to penalties ranging from RMB10,000 to RMB50,000. Where a company fails to make payments towards housing funds within the required time limit, the housing provident fund management center may apply to the court for the enforcement of the unpaid amount.

Laws and Regulations Relating to the Textile and Garment Industry in Vietnam

Policy on strategic development of the Vietnam textile and garment industry

Decision No. 36/2008/QD-TTg dated March 10, 2008 of the Prime Minister of Vietnam ("Decision 36") sets out the strategy for the development of the Vietnam textile and garment industry up to 2015 with orientation up to 2020. Decision 36 provides for development policies and implementation strategies with the overall objective of developing the textile and garment industry into a key export industry, increasingly meeting domestic demand and increasing the competitiveness and international integration of the industry.

The developmental policies set out in Decision 36 include (i) enhancing competitiveness, brand building, applying quality management standards to meet international integration requirements, and increasing production volumes to meet demand for export and domestic consumption; (ii) attracting domestic and foreign investment in the manufacture of synthetic fibers, raw and auxiliary materials, substitute accessories and support products; (iii) formulating a program for manufacturing fabrics for export; (iv) formulating a program for cotton plant development, with an aim to increase the supply volume and quality of cotton fibers; (v) expanding export markets and developing the domestic market; and (vi) developing the textile and garment industry while protecting the environment and restructuring agricultural labor in rural areas.

The Vietnam government aims to achieve the abovementioned objectives through the implementation of strategies on investment, human resources, technology, market development, supply of materials and financial solutions, specifically as follows:

(i) investment strategy: the Vietnam government encourages domestic and foreign investments in the textile and garment industry, investment projects in textile, dyeing, production of cotton fibers and artificial fibers and production of raw and auxiliary materials. The strategy includes setting up specialized textile and garment industrial parks and coordination with locals in investment in cotton plant development;

(ii) human resources development: providing appropriate training to management, sales, and technical personnel and workers in the textile and garment industry;

(iii) scientific and technological solutions: reorganizing textile and garment research institutes, researching and applying new technologies and materials, and formulating standards and technical regulations;

(iv) market strategy: expanding overseas market, reforming administrative procedures, organizing a domestic retail network and building brands;

(v) supply strategy: building supply centers in major cities in Vietnam, setting up enterprises trading in high-quality raw and auxiliary materials; and

(vi) financial solutions: raising capital for investment from domestic and foreign markets, obtaining governmental funding for research, human resources training and environmental treatment.

In addition to Decision 36, the Ministry of Industry and Trade has issued Decision No. 42/2008/QD-BCT dated November 19, 2008 ("Decision 42") approving specific plans for the development of the textile and garment industry to 2015 with orientation to 2020.

With the general objective of developing the textile and garment industry to be one of the major export industries of Vietnam and achieving strong and sustainable growth of textile and garment enterprises, Decision 42 provides for a master plan on product development and production regions, as well as policies and solutions in respect of investment, supply of materials, market development, human resources, technologies, environment and finance in line with Decision 36. The strategy in respect of production regions includes Hanoi as a service center for providing raw materials, models and textile establishments with high value products, Ho Chi Minh City as a trading center with focus on fashion design, provision of services to the textile and garment industry and manufacturing of high quality fashion products, relocation of factories to neighboring regions to ease the pressure on labor supply, and setting up dye-weave industrial and manufacturing zones in other regions and provinces. The main cotton growing areas will be in the North West, North East and the Tay Nguyen Central Highlands.

Decision 42 sets out specific targets such as an average growth of 16% to 18% and export growth of 20% for the period 2008-2010, and average growth of 12%-14% and export growth of 15% for the period 2011-2020. Decision 42 also provides for major targets on revenue, exports, employment, localization of the textile and garment industry and volume of major products such as cotton, synthetic fiber, assorted fibers, assorted fabrics and garment products. The export targets are US$12 billion by 2010, US$18 billion by 2015 and US$25 billion by 2020. Cotton lint production is expected to increase to 20,000 tonnes by 2010, 40,000 tonnes by 2015 and up to 60,000 tonnes by 2020. The production targets for synthetic fiber production are 120,000 tons by 2010, 210,000 tons by 2015 and up to 300,000 tons by 2020. The localization targets are 50% by 2010, 60% by 2015 and 70% by 2020.

Vietnam cotton development master plan for 2015-2020

On January 8, 2010, the Prime Minister issued Decision No. 29/QD-TTg, approving the Vietnam Cotton Development Master Plan for 2015-2020. Under the program, the Vietnam government will encourage larger-scale cotton farms and intensive cotton farming in order to increase cotton output and cotton quality, in order to gradually meet the cotton demand and become less dependent on cotton imports. The plan aims to achieve targets of 20,000 tons and 60,000 tons of cotton fiber production by 2015 and 2020, respectively. As a financial measure, the Vietnam government plans to establish a fund to help farmers with extension work and with cotton price stabilization. Loans at favorable interest rates will be made available to cotton production enterprises. The Vietnam government also plans to invest in building infrastructure facilities and irrigation works in concentrated cotton-growing areas.

Textile import and export

Since Vietnam's accession to the WTO in 2007, the export quota previously applied to Vietnam products had been removed. Accordingly, the Vietnam textile businesses can freely export their products based on market demands. On January 1, 2007, the United State Association of Importers of Textiles and Apparel announced the removal of the import quota applicable to the import of Vietnam textile products into the United States. As a WTO member, Vietnam has to commit to open its domestic market to foreign goods through the reduction and/or removal of tariffs. The first reduction in import tariffs applicable to imported products, including textile products, had been made upon Vietnam's WTO entry in 2007; for example, the tariff on textiles was reduced from 37.3% down to 13.7%, and tariff on threads was reduced from 20% down to 5%.

Laws on enterprises and investment

In 1999, the Law on Enterprises was first introduced in order to create a modern legal regime for the establishment and operation of private enterprises. A principal change introduced under the Law on Enterprises was to allow the establishment of companies upon registration, rather than by discretionary licensing. On November 29, 2005, the new Law on Enterprises No. 60/2005/QH11 ("Law on Enterprises") and the general Law on Investment No. 59/2005/QH11 were promulgated to simplify administrative procedures and provide more equal treatment to local and foreign businesses. The laws together with their implementing regulations enable foreign investors to invest in any sector of the Vietnam economy except certain prohibited sectors (for example, projects that are detrimental to national security, morals or harmful to public health), subject to caps on foreign ownership in specific circumstances. In certain sectors (for example, broadcasting and television, transportation, education and training, and hospitals and clinics), investments are subject to specific entry conditions. These conditions must, however, be consistent with the market entry commitments that Vietnam has made in international treaties. Accordingly, the investment options open to foreign investors in Vietnam have expanded following Vietnam's WTO accession and its resulting WTO commitments, especially those contained in the Schedule of Specific Commitments in Services.

Conflicts of interest and related party transactions

While the concept of related person is broadly defined under the Law on Enterprises, the law does not regulate all related party transactions, but only those involving (i) the shareholders holding more than 35% of the total number of shares of the company, their authorized representatives and related persons; (ii) members of the board of management, general director (i.e., chief executive officer); and (iii) companies in which a member of the board of management, or an inspection committee member, or the general director and other managers of the company holds shares or contributes capital or in which their related persons jointly or severally own more than 35% of charter capital.

A transaction between the company and any of the above relevant related persons with a value amounting to less than 50% (or a smaller threshold if prescribed by the company charter) of the company's total assets as recorded in the latest financial statement must be approved by the board of management. If the value of such transaction is equal to or greater than 50% (or a smaller threshold if prescribed by the company charter) of the company's total assets as recorded in the latest financial statement, shareholders' approval for transactions is required. The board member(s) or shareholder(s) who has an interest in the transaction must abstain from voting on the relevant resolution. Directors and key managers of the company are required to declare certain information relating to their interest in other companies and are subject to duties of loyalty and diligence to ensure the best interest of the company and the shareholders. However, there is still a lack of effective and detailed implementing regulations in respect of the approval and disclosure of related party transactions and conflicts of interest matters.

Environmental regulations

The Law on Protection of the Environment No. 52/2005/QH11 dated November 29, 2005, which took effect on July 1, 2006, sets out the general legal framework for the protection of the environment in Vietnam and imposes penalties for breaches of its provisions. It aims to limit adverse impact on the environment, control environmental degradation, pollution, hazards and exploitation, encourage the proper use of natural resources and protect biological diversity. Under the Law on Protection of the Environment, business entities and individuals have duties to, among others, comply with environmental law and regulations, take environmental protection measures as stipulated in an approved environmental impact assessment report ("EIAR") or a registered environmental protection undertaking ("EPU"), to prevent, reduce and eliminate adverse impact on the environment and remedy environmental pollution caused by their activities, and to pay the environmental tax and environmental protection fees.

For projects set up after the effective date of the Law on Protection of Environment, depending on the nature and scale of each project (for example, a manufacturing plant or a clinic), either a compulsory EIAR or an EPU is required. For projects which were set up prior to the law coming into effect, registration of satisfaction of environmental standards ("RSES") was required.

The EIAR will be submitted to the Ministry of Natural Resources and Environment, local People's Committee or Industrial Zones Authority, while the EPU or RSES, as the case may be, will be filed with the local Department of Natural Resources and Environment, local People's Committee or Industrial Zones Authority for approval before a manufacturing plant, clinic or other construction work commences operation. The competent authorities may from time to time conduct regular inspections to ensure that the relevant environment standards are complied with. Failure to comply with the EIAR would result in fines ranging from VND40 million to VND70 million (US$2,113 to US$3,697), while non-compliance with the EPU may incur fines ranging from VND2 million to VND5 million (US$106 to US$264).

Register of owner of hazardous wastes

Under Vietnam law, all organizations and individuals engaging in businesses which dispose hazardous wastes are required to register with the competent authority. Failure to register with the competent authority may subject the hazardous waste owner to a fine ranging from VND40 million to VND70 million (US$2,113 to US$3,697).

License for water resource exploitation and License for waste water discharge in water resource

All organizations and individuals conducting work or engaging in the business which involves the exploration, extraction, exploitation and utilization of water resources and waste water discharge into water sources, must apply for a license for exploration, extraction and utilization of water resources and waste water discharge into water sources. The textile and garment industry is subject to the national technical regulation on effluent of textile industry QCVN 13:2008/BTNMT, issued under Decision No. 16/2008/QD-BTNMT dated December 31, 2008 by the Ministry of Natural Resources and Environment, which requires waste water from textile plants to be treated to satisfy the criteria set out therein, prior to discharge into water sources.

Labor law

The Labor Code of Vietnam ("Labor Code") was enacted on June 23, 1994 and amended in 2002, 2006 and 2007. The Vietnam government has issued various regulations implementing the Labor Code.

Labor contract

A labor contract must, with the exception of contracts with a term of less than three months, be in writing and signed directly between an employee and the authorized legal representative of a company. Labor contracts must comply with a standard form issued by the Ministry of Labor, War Invalids and Social Affairs and must include terms such as the work to be carried out, working hours, length of break, wage, working place, length of contract term, health and safety provisions and social insurance. The standard form entitles the employer to specify further employment terms and conditions. The contents of a labor contract must be in compliance with the laws of Vietnam and the collective labor agreement of the relevant company. A labor contract may provide for a fixed term of 12 to 36 months, a non-fixed term or seasonal or temporary work with a term of less than 12 months.

Laws and regulations relating to employment benefits

Under the Law on Social Insurance No. 71/2006/QH11 dated June 29, 2006, the Law on Health Insurance No. 25/2008/QH12 dated November 14, 2008 and their supplementing legislation, an employer in Vietnam is required to make social insurance and health insurance contributions for employees employed under contracts for an indefinite term or of at least a 3-month duration, and unemployment insurance contributions for employees employed under contracts for an indefinite term or of a 12 to 36-month duration. Current applicable contributions, which are based on the employee's salary, are as follows: (i) social insurance contribution of 22% comprising 16% employer's contribution and 6% employee's contribution, (ii) unemployment insurance contribution of 2% comprising 1% employer's contribution and 1% employee's contribution, and (iii) health insurance contribution of 4.5% comprising 3% employer's contribution and 1.5% employee's contribution.

Laws and regulations relating to occupational safety

The Labor Code provides that an employer shall be responsible for providing its employees with sufficient protective equipment, ensuring occupational safety and hygiene, and for the improvement of work conditions in the work place. The employee must comply with all occupational safety and hygiene regulations and the internal labor rules of the company.

Under the Labor Code, an employer is required to ensure that the work place satisfies the requirements of space, ventilation, lighting, and hygiene standards, for example in respect of management of dust, steam, toxic gas, radioactivity, electromagnetic field, heat, humidity, noise, vibration, and other detrimental factors. In addition, the employer must organize training for, instruct and notify employees of occupational safety and hygiene regulations, preventive measures and possible accidents which might occur for each particular job of each employee. An employee must have his health examined during recruitment and on a regular basis during employment in accordance with the law and the employer shall bear the expense of such health assessments.

The law also requires that employees working in dangerous or toxic environments (which includes the textile industry) shall be compensated in kind and be entitled to the regime of preferential treatment in respect of working hours and rest breaks in accordance with the law.

Vietnam fire safety laws and regulations

Under the Law on Fire Prevention and Fighting No. 27/2010/QH10 dated 29 June 2001 and its implementing regulations, prior to the commencement of construction works, a developer must submit a fire safety proposal for the building to the fire department. The fire safety proposal must include, among other things, an application specifying the characteristics, scale and nature of the proposed building, the investment certificate or an approval from the People's Committee as to the location of the building, and the drawings and explanation of the fire safety features in the building. Approval of the fire department will be one of the conditions for the competent authority to approve the design of the building and grant the construction permit, only upon which construction works can commence. Upon completion of construction, the completed building must be subject to further fire prevention and fighting tests, upon satisfaction of which the fire department will issue a certificate of acceptance of fire safety for the building before the building can be put into operation. Regular inspections and maintenance of fire prevention and fire fighting conditions must be conducted during the operation of the building.

Failure to install fire prevention and fighting equipment such as an automatic alarm system, fire extinguishers and the like may not result in suspension of a building's operation but may result in a penalty in the amount of up to VND10 million (US$528).

Laws and regulations relating to taxation

Corporate income tax

Under the Law on Corporate Income Tax No. 14/2008/QH12 adopted by the Vietnam National Assembly on June 3, 2008 ("CIT Law") and its guiding documents, any organization conducting activities of production and business in goods and services which earns taxable income shall be a corporate income taxpayer and subject to corporate income tax at a rate of 25% payable to the Vietnam tax authority.

For the purpose of encouraging certain industries in Vietnam, the CIT Law sets out some corporate income tax incentives applicable to enterprises newly established for investment projects in certain areas (e.g., areas with specially difficult socio-economic conditions, economic zones and high-tech zones) or in certain industries (e.g., high technology and production of software products). Subject to industries and locations that enterprises invest in, the tax incentives may be in the form of either a preferential corporation income tax rate (i.e., ranging from 10% to 20% for a duration of 10 years or more) or a duration of exemption from, and 50% reduction of, corporate income tax.

The CIT Law also sets forth certain principles and conditions for the application of corporate income tax incentives, in particular (i) tax incentives shall be granted to newly established enterprises; (ii) an enterprise may choose the most favorable one if it has a number of items of income eligible for corporate income tax incentive rates and periods of tax exemption or reduction; (iii) if during the period of entitlement to an incentive the enterprise within the tax assessment year fails to satisfy one of the conditions for application tax incentives, then the enterprise shall not be entitled to incentives in such year and must pay corporate income tax at the rate of 25%; (iv) in case of consolidation, division, merger, de-merger or conversion of an enterprise form or ownership, the new enterprise shall subsist the corporate income tax incentives of the former enterprise for the residual period if it continues to satisfy the relevant conditions.

Under the CIT Law and its guiding documents, enterprises shall self-determine their conditions for entitlement to tax incentives, the tax rates, the duration of tax exemption and tax reduction, and the amount of losses deductible from assessable income in order to declare and conduct tax finalization. The tax authority shall check whether the enterprise actually satisfies for entitlement to tax incentives. If any fraud occurs, the enterprise must pay tax on amended figures and shall also be subject to payment of tax arrears and penalties under the law on administrative breaches in the tax sector (i.e., maximum of VND100 million (US$5,282).

Import and export tax

Vietnam National Assembly issued the Law on Export and Import Duties No. 45/2005/QH11 regulating export and import duties applicable to goods which are exported or imported across the border gates and borders of Vietnam, and goods which are purchased and sold or exchanged between border inhabitants, and other goods which are purchased and sold or exchanged and which are deemed to be exported and imported goods. In 2010, Decree No. 87/2010/ND-CP dated August 13, 2010 was issued by the Vietnam government, which provides detailed regulations for the implementation of the law on import and export duties. In order to support all enterprises investing in Vietnam, such regulations have set out some applicable incentives. For example, an enterprise can enjoy tax exemption for goods imported in order to form fixed assets of an investment project in a preferential import duty sector such as making textile fabrics and completing textile products section.

As stated in Investment Certificate No. 472033000309 dated October 24, 2006 as amended on November 15, 2007 issued by Dong Nai Industrial Zones Authority (Vietnam) in favor of our Vietnam subsidiary, Texhong (Vietnam) Textile Joint Stock Company, Texhong (Vietnam) Textile Joint Stock Company, is also enjoying the import tax exemption for imported goods to establish fixed assets such as equipment and machinery and components, details, separate sections, spare parts, fittings, moulds and accessories accompanying such equipment and machinery.

Laws and regulations relating to foreign exchange

Vietnam maintains a managed floating exchange rate regime under which the rate of exchange of Vietnam Dong to U.S. dollar is adjusted according to market forces, subject to parameters set by the State Bank of Vietnam (the "State Bank"). Under the current managed floating exchange rate regime, the State Bank sets the official U.S. dollar to Vietnam Dong exchange rate daily by averaging rates from the previous day's interbank foreign exchange transactions. Pursuant to Decision No. 2666/QD-NHNN dated November 25, 2009, foreign exchange transactions between the U.S. dollar and the Vietnam Dong are required to be executed within 3% of the official exchange rate, effective from November 26, 2009. The State Bank has since devalued the Vietnam Dong against the U.S. dollar, but the 3% trading rank still remains in place.

The Vietnam government regulations allow companies to hold more than one foreign currency account in Vietnam and to hold an offshore bank account with the approval of the State Bank. Foreign-invested enterprises ("FIEs") (like our Vietnam subsidiary, Texhong (Vietnam) Textile Joint Stock Company) may convert Vietnam Dong into foreign currency to cover current payments denominated in foreign currency and to repay foreign loans. In addition, the Vietnam government has undertaken to provide certain support and guarantees for foreign currency requirements of infrastructure projects and other high priority projects.

Under the current Vietnam foreign exchange control regulations, any person or organization, including FIEs, may exchange Vietnam Dong into foreign currency at exchange rates quoted by credit institutions licensed to provide foreign exchange services in Vietnam, provided that such person or organization declares the intended use of the money and provides appropriate supporting documents.

There are no restrictions on the inward remittance of foreign currency. Any cash amount valued over US$7,000 in any currency must be declared at customs. The outward remittance of foreign currency by domestic enterprises may only be made to pay for imported goods and services, to repay offshore loans registered with the State Bank or to make overseas investments. The outward remittance of foreign currency by Vietnam citizens may be made for tourism, education, healthcare, private residential, inheritance and other legal purposes.

FIEs are generally allowed to repatriate profits from business operations and are allowed to make outward remittance of foreign currency for the purchase of raw materials and supplies, the provision of services, licensed technology transfer, payments of principal and interest on offshore loans registered with the State Bank, salaries and payments of other legally owed sums of money and assets. Upon termination or dissolution of a business enterprise, foreign investors may repatriate their capital. Remittance must be made through certain registered accounts opened at authorized banks licensed to operate in Vietnam.

MANAGEMENT

Directors and Senior Management

The following table provides information about the Company's board of directors.

Name	Age	Position
Mr. Hong Tianzhu	42	Executive Director and Chief Executive Officer
Mr. Zhu Yongxiang	44	Executive Director and Chief Operating Officer
Mr. Tang Daoping	45	Executive Director and Vice President
Mr. Gong Zhao	55	Executive Director and Vice President
Ms. Zhu Lanfen	68	Independent Non-Executive Director
Professor Cheng Longdi	50	Independent Non-Executive Director
Mr. Ting Leung Huel, Stephen . . .	56	Independent Non-Executive Director

The board of directors has the ultimate responsibility for the administration of the Company's affairs. The Company's articles of association as currently in effect provide for a board comprised of not less than two directors. If a director is appointed by the board, such director holds office until the next annual meeting of shareholders at which time such director is eligible for reelection. The board presently consists of seven directors, three of whom are independent non-executive directors.

Under Cayman Islands law, the directors have a duty of loyalty and must act honestly, in good faith and in the Company's best interests. The directors also have a duty of care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to the Company, the directors must ensure compliance with the Company's memorandum and articles of association. A shareholder may in certain circumstances have the right to seek damages on behalf of the Company if a duty owed by the directors is breached.

Executive Directors

Mr. Hong Tianzhu, 42, is an executive Director and chairman of the Group. He is the founder of the Group. He is responsible for the overall business development strategy of the Group. Mr. Hong is currently a vice chairman of the Hong Kong General Chamber of Textiles Limited. He has over 20 years of experience in the textile industry. Prior to establishing the Group, Mr. Hong was a vice general manager of Jinjiang Yifeng Garment Weaving. Mr. Hong is a director and the 100% beneficial owner of Hong Kong Tin Hong, and the sole director of New Green Group Limited, which is 100% owned by Hong Kong Tin Hong. Mr. Hong is also a director of Trade Partner Investments Limited, which is owned as to 51.36% by him. Each of New Green Group Limited and Trade Partner Investments Limited was the beneficial owner of 395,459,173 and 163,500,000 shares of HK$0.1 each in the Company as at December 31, 2009, respectively.

Mr. Zhu Yongxiang, 44, is an executive Director and chief operation officer of the Group. He is responsible for the daily operations of the Group. Mr. Zhu graduated from the Nantong Textile Industry College in 1987. Prior to joining the Group in 1997, Mr. Zhu was an assistant to the general manager of Nantong No. 2 Cotton Factory. Mr. Zhu is the sole director and the 100% beneficial owner of Wisdom Grace Investments Limited. Mr. Zhu is also a director of Trade Partner Investments Limited, which is owned as to 41.36% by him. Each of Trade Partner Investments Limited and Wisdom Grace Investments Limited was the beneficial owner of 163,500,000 and 88,216,000 shares of HK$0.1 each in the Company as at December 31, 2009, respectively.

Mr. Tang Daoping, 45, is an executive Director and vice president of the Group. He is responsible for the operations of the Group's yarn business. Mr. Tang is also a director and the chairman of Texhong Suining, Jiangsu Century Texhong, Xuzhou Century Texhong, Xuzhou Texhong Times, Nantong Century Texhong, Nantong Texhong Yinhai and Xuzhou Texhong Yinfeng. Mr. Tang graduated from Xuzhou Radio and TV University in 1996 majoring in accounting. Mr. Tang has over 27 years of experience in the textile industry. He was a workshop manager of Suining Cotton Factory prior to joining the Group in 1998 as a vice general manager. Mr. Tang was promoted and became a director of Texhong Suining and Jiangsu Century Texhong in September 2002.

Mr. Gong Zhao, 55, is an executive Director and vice president of the Group. He is responsible for the operations of the Group's grey fabric business. Mr. Gong is also a director and the chairman of Zhejiang Texhong. Mr. Gong has over 26 years of experience in the textile industry. Prior to joining the Group in 1998 as a vice general manager, Mr. Gong had worked in Wuxi No. 4 Cotton Factory. Mr. Gong was promoted and became a director of Texhong Jinhua in January 2001.

Independent Directors

Ms. Zhu Lanfen, 68, studied textiles at the Huadong Textile Industry School. Ms. Zhu has over 41 years of experience in the textile industry. Prior to 16 May 2006, Ms. Zhu was an independent director of Wuxi Qing Feng Co. Ltd., a company listed on the Shanghai Stock Exchange. Ms. Zhu is also currently the vice president of the council of CCTIA. She joined the Group and was appointed as an independent non-executive Director on November 21, 2004.

Professor Cheng Longdi, 50, obtained his doctorate degree in textiles from Donghua University in 2002. Professor Cheng is currently a professor of the Department of Textile Engineering at Donghua University and he is also the deputy director at the key laboratory of Textile Science and Technology, Ministry of Education. Professor Cheng is an academic committee member of the cotton textile profession committee of the China Society of Textile Engineering. Professor Cheng is also the committee member of the expert committee of China Textile Planning Institute of Construction. Professor Cheng was an engineer of the China Textile Academy (formerly known as Textile Academy of Textile Ministry). He joined the Group and was appointed as an independent non-executive Director on November 21, 2004.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD, aged 56, was appointed as independent non-executive Director of the Company on November 21, 2004. Mr. Ting is an accountant in public practice and has more than 30 years' experience in this field. Currently he is the Managing Partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting is a member of the 9th Chinese People Political & Consultative Conference, Fujian. He is now an independent non-executive director of six other listed companies in Hong Kong, namely Computer and Technologies Holdings Limited, Dongyue Group Limited, JLF Investment Company Limited (formerly known as MACRO-LINK International Holdings Limited), Minmetals Resources Limited, Tong Ren Tang Technologies Company Limited and Tongda Group Holdings Limited respectively. He is also a non-executive director of Chow Sang Sang Holdings International Limited, a listed company in Hong Kong. Prior to July 3, 2007, he was also an independent non-executive director of eForce Holdings Limited, a listed company in Hong Kong. He was also appointed as an independent non-executive director of China SCE Property Holdings Limited, a listed company in Hong Kong, since January 6, 2010.

Other Senior Management

Mr. Sha Tao, 44, a vice president of the Group and responsible for the production and purchase of the Group's grey fabric operations. He is also a director and the chairman of Taizhou Texhong Weaving and Taizhou Century Texhong. Mr. Sha obtained his bachelor's degree in textiles from Wuxi Light Industry University in 1986. Mr. Sha has over 22 years of experience in the textile industry. Prior to joining the Group in 1998, he was a factory manager of one of the factories of Nantong No. 2 Cotton Factory.

Mr. Hu Zhiping, 46, is a vice president of the Group and responsible for the grey fabric sales operations of the Group. Mr. Hu graduated from Wuxi Professional University in textiles in 1984. Mr. Hu has over 22 years of experience in the textile industry. He was a vice general manager of Wuxi Xieda Weaving Company prior to joining the Group in 1998.

Mr. Cheng Chi Ming, 44, was the chief financial officer and company secretary of the Group. Mr. Cheng was graduated from the University of Hong Kong with a bachelor degree of Social Sciences. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountants. Mr. Cheng has more than 16 years of auditing, financial management and accounting experience. Prior to joining the Group, Mr. Cheng was the financial controller of Pou Sheng International (Holdings) Limited, a listed company on the Hong Kong Stock Exchange. Mr. Cheng joined the Group in July 2008 and resigned on August 28, 2009.

Mr. Hui Tsz Wai, aged 37, the chief financial officer and company secretary of the Group. He graduated from the Chinese University of Hong Kong with a bachelor of business administration (honors) degree. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Financial Analyst and a Certified Fraud Examiner. He has more than 15 years working experience in the finance-related area. He had been working at one of the big 4 international accounting firms for about 9 years. He successfully assisted the Group in completion of the initial public offering on the main board of the Stock Exchange of Hong Kong Limited in 2004. Mr. Hui joined the Group again in August 2009.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive directors of the Company. The current members of the audit committee are Mr. Ting Leung Huel, Stephen (Chairman), Ms. Zhu Lanfen and Mr. Cheng Longdi. 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. To retain independence and objectivity, the audit committee has been chaired by an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The audit committee has adopted terms of reference, which are in line with the Code of Corporate Governance Practices (the "Code Provisions") set out in Appendix 14 to the prevailing Rules Governing the Listing Rules of the Hong Kong Stock Exchange. The audit committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary. The audit committee had reviewed the audited results of the Group for the financial years ended December 31, 2007, 2008 and 2009 and the unaudited condensed consolidated financials statements of the Group for the ten months ended October 31, 2009 and October 31, 2010.

Remuneration Committee

The Company has established a remuneration committee, which includes three independent non-executive directors of the Company. The current members of the remuneration committee are Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen, Mr. Cheng Longdi and Mr. Hong Tianzhu, the chairman and an Executive Director. 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 our policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board of Directors. The remuneration committee has adopted terms of reference which are in line with the Code Provisions. The remuneration committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

Legal Representative

Pursuant to the articles of association of the Company, the directors may confer upon the Chairman and any Executive Director all or any powers of the Directors and, pursuant to such right, the Directors have resolved that the Chairman and the Chief Executive Officer are the only person(s) authorized to represent the Company and sign contracts on its behalf. However, the board of directors may also from time to time specifically authorize any other director or person to represent the Company and sign contracts on its behalf.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As of October 31, 2010, the interests and short positions of every person, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of substantial shareholders	Nature of interests	Number of ordinary shares	Percentage of the Company's issued share capital	Long/Short Position
New Green Group Limited . .	Beneficial owner	373,459,173(1)	42.21%	Long
Trade Partner Investments Limited.	Beneficial owner	163,500,000(2)	18.48%	Long
Wisdom Grace Investments Limited.	Beneficial owner	68,000,000(3)	7.69%	Long
Texhong Group Holdings Limited.	Interest of controlled corporation(s)	373,459,173(1)	42.21%	Long
Ms. Ke Luping	Interest of spouse	541,359,173(4)	61.19%	Long
Ms. Zhao Zhiyang	Interest of spouse	231,500,000(5)	26.17%	Long
Mr. Hui Ching Lau	Interest of controlled corporation	45,016,000(6)	5.09%	Long
Lianjie (China) Investments Limited.	Beneficial owner	45,016,000(6)	5.09%	Long

(1) These 373,459,173 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 Texhong Group Holdings Limited, a company 100% beneficially owned by Mr. Hong Tianzhu. Under the SFO, each of Texhong Group Holdings Limited and Mr. Hong Tianzhu is deemed to be interested in all the Shares held by New Green Group Limited.

(2) 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 51.36% by Mr. Hong Tianzhu, 41.36% by Mr. Zhu Yongxiang, 2.24%, 1.68%, 1.68% and 1.68%, by Mr. Sha Tao, Mr. Tang Daoping, Mr. Gong Zhao and Mr. Hu Zhiping. Under the SFO, each of Mr. Hong Tianzhu and Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Trade Partner Investments Limited.

(3) These 68,000,000 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.

(4) Ms. Ke Luping is the spouse of Mr. Hong Tianzhu. Under the SFO, Ms. Ke Luping is taken to be interested in the same number of Shares in which Mr. Hong Tianzhu is interested.

(5) Ms. Zhao Zhiyang is the spouse of Mr. Zhu Yongxiang. Under the SFO, Ms. Zhao Zhiyang is taken to be interested in the same number of Shares in which Mr. Zhu Yongxiang is interested.

(6) These 45,016,000 Shares are registered in the name of Lianjie (China) Investments Limited, which is 100% controlled by Hui Ching Lau. Under the SFO, Hui Ching Lau is deemed to be interested in all the Shares in which Lianjie (China) Investments Limited is interested.

Directors' Interests

As of October 31, 2010, the long and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Listing Rules, were as follows:

Name of directors of the Company	Name of Group member/ associated corporation	Nature of interest	Number of ordinary shares	Percentage of the Company's issued share capital	Long/Short Position
Mr. Hong Tianzhu	the Company	Interest of controlled corporation(s)	536,959,173(1)	60.70%	Long
	the Company	Beneficial owner	4,400,000	0.50%	Long
Mr. Zhu Yongxiang . . .	the Company	Interest of controlled corporation(s)	231,500,000(2)	26.17%	Long

(1) Among these 536,959,173 Shares, as to 373,459,173 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 Texhong Group Holdings Limited, a company 100% owned by Mr. Hong Tianzhu 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 51.36% by Mr. Hong Tianzhu. Under the SFO, Mr. Hong Tianzhu is deemed to be interested in all the Shares held by New Green Group Limited and Trade Partner Investments Limited.

(2) Among these 231,500,000 Shares, as to 68,000,000 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.

RELATED PARTY TRANSACTIONS

We may from time to time engage in transactions with our affiliates in the ordinary course of our business. It is our policy to conduct these transactions on normal commercial terms and on an arm's-length basis and we believe that each of the transactions described below have been entered into on normal commercial terms and on an arm's-length basis.

The following table summarizes our related party transactions with Nantong Textile for the periods indicated and the related party balances as of the year/period end:

	As of and for year ended December 31,				As of and for ten months ended October 31,		
	2007	2008	2009		2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000(1)	RMB'000	RMB'000	US$'000(1)
	(audited)				(unaudited)		
Sales of goods	4,185	12,582	1,834	275	1,793	187	28
Purchases of goods	2,841	14,099	33,092	4,961	28,717	27,750	4,160
Trades payable	1,366	8,161	2,010	301	4,222	247	37
Trades receivables	518	—	—	—	—	—	—
Prepayments for purchase of raw materials	—	4,122	—	—	—	215	32

(1) The US$ translations are provided for indicative purposes only and are unaudited. These translations were calculated based on an exchange rate as of October 29, 2010, which was RMB6.6707 to US$1.00.

The following table summarizes our related party transactions with Tianhong Printing and Dyeing (Wuxi) Co., Ltd. ("Tianhong Printing and Dyeing") for the year ended December 31, 2007 and the related party balance as of the year end:

	As of and for the year ended December 31, 2007
	RMB'000
Sales of goods	28
Purchases of goods	681
Trade receivables	3,967

Details of those material related party transactions provided in the tables above are as follows:

Nantong Textile

During the period from January 1, 2007 to September 30, 2007, we sold our grey fabrics to Nantong Textile on normal commercial terms and on an arm's-length basis which were no more favorable than those available to independent third-party purchasers. The aggregate sales of our grey fabrics to Nantong Textile during this period amounted to approximately RMB954,000. During the same period, we purchased garment fabrics from Nantong Textile on an arm's-length basis and on normal commercial terms which were no less favorable than those available to independent third-party purchasers. The aggregate purchases of garment fabrics from Nantong Textile during this period amounted to approximately RMB238,000.

Tianhong Printing and Dyeing

For the year ended December 31, 2007, we sold our grey fabrics to Tianhong Printing and Dyeing on normal commercial terms and on an arm's-length basis which were no more favorable than those available to independent third-party purchasers. The aggregate sales of our grey fabrics to Tianhong Printing and Dyeing amounted to approximately RMB28,000. During the same period, we purchased garment fabrics from Tianhong Printing and Dyeing on an arm's-length basis and on normal commercial terms which were no less favorable than those available to independent third-party purchasers. The aggregate purchases of garment fabrics from Tianhong Printing and Dyeing amounted to approximately RMB681,000.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing the Company's material indebtedness and its subsidiaries' material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the notes to the Company's consolidated financial statements for additional information about its indebtedness.

To fund our working capital and trade credit requirements, we have entered into various loan and facility agreements with various financial institutions. As of October 31, 2010, our consolidated borrowings were approximately RMB1,096.1 million (US$164.3 million). As of October 31, 2010, the interest rates on the outstanding amount range from 2.1 to 6.8 and the weighted average effective interest rate on the average outstanding amount our indebtedness was 5.0% per annum. The maturity dates of the outstanding amount are from December 2010 to October 2016. Set forth below is a summary of the material terms and conditions of certain of these loans and other indebtedness.

Working Capital Facilities

Certain of our PRC subsidiaries have entered into banking facility agreements with various banks, including Bank of China, BNP Paribas (China) Limited, China Merchants Bank, Citibank (China) Co., Ltd. Shanghai Branch, Credit Union of Xuzhou, Industrial Bank Co., Ltd. and Industry and Commercial Bank of China.

Sunray Trading (Hong Kong) Limited ("Sunray Trading"), a Hong Kong subsidiary of the Company, and Sunray Macao Commercial Offshore Limited ("Sunray Macao"), a Macau subsidiary of the Company, have entered into banking facility agreements with Deutsche Bank AG, Hong Kong Branch, HSBC and The Royal Bank of Scotland plc.

Texhong (Vietnam) Textile Joint Stock Company has entered into banking facility agreements with various banks, primarily Bank of China, Ho Chi Minh City Branch, VIBank, Joint Stock Commercial Bank for Foreign Trade of Vietnam, Nhon Trach Branch, BIDV, China Trust and Indovina Bank, Dong Nai Branch.

These banking facilities typically are used to fund the Group's working capital. As of October 31, 2010, the Company's PRC, Vietnam and Hong Kong subsidiaries had total indebtedness of approximately RMB518.5 million (US$77.7 million), RMB119.6 million (US$17.9 million) and RMB458.0 million (US$68.7 million), respectively.

Interest

The principal amounts outstanding under the working capital facilities bear interest either at a fixed rate or at a floating rate calculated by reference to relevant interbank offered rate. Floating interest rates generally are subject to annual review by the banks. Interest payments are generally payable either monthly or quarterly and must be made on each payment date as provided in the particular facility agreement.

Covenants and undertakings

Under the working capital facilities, the relevant subsidiaries and the Company (each in the capacity of borrower and/or guarantor) have agreed, among other things, to:

- use the proceeds from the borrowings as designated;

- comply with the payment obligations;

- give written notice to and/or seek written consent from the lenders with respect to the change to the borrower's or the guarantor's legal representative, address, business scope, board of directors and others;

- seek written consent from the lenders on assignment of borrowers' obligations to a third party;

- provide financial information to the lenders;

- give prior written notice to and seek written consent from the lenders when providing security to others (or providing securities to others in excess of a certain threshold) which may affect the borrower's ability to make repayment under the respective agreement;

- notify the lenders of important events such as suspension of operation, suspension of license or registration, illegal conduct of legal representatives, material litigation, deterioration of financial condition of the borrowers, the guarantors or the borrowers' shareholders or associated companies, increase of the registered capital, changes to the borrower's or the guarantor's articles of association, application for bankruptcy declaration and others which may significantly affect the borrower's ability to make repayment under the respective facility agreement;

- ensure the lenders' interests under the facilities not to be adversely affected if the borrowers have entered into or are to enter into reverse guarantees or similar agreements in connection with the relevant guarantees; and

- give written notice to and seek written consent from the lenders on amalgamation, reorganization, reconstruction, contracting of operation, association, spin-off, disposal of any substantial assets or equity interest, change of control, making substantial overseas investment, incurring substantial indebtedness, entering into related transactions, applying for bankruptcy and other similar events that would have a material impact on the borrower's capability to repay the relevant loans.

In addition, pursuant to the facility agreement between Sunray Macao as borrower and Deutsche Bank AG, Hong Kong Branch as lender, Sunray Macao has agreed, among other things, to ensure the Company and its subsidiaries to maintain at all times: (i) a minimum Net Worth of RMB700,000,000; (ii) a ratio of Total Debt to Net Worth of less than 1:1; (iii) a ratio of Debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) less than 3:1; and (iv) an EBIT (Earning Before Interest and Taxes) to Interest more than 4:1. Sunray Macao has obtained in relation to this offering and the issuance of the Notes a waiver of financial covenants (ii), (iii) and (iv) above from Deutsche Bank AG, Hong Kong Branch until such time all amounts under the 2010 Facility Agreement are repaid in full and the Index-Linked Notes are redeemed in full (as such capitalized terms are defined in this facility agreement).

Events of Default

The working capital facilities contain certain customary events of default, including non-payment, misrepresentation, insolvency and breaches of the terms of the facility agreements, cross-default, and any events or circumstances that result in a material adverse change in the business, ownership or financial condition of the borrowers. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default. The lenders may also be entitled for indemnities from the borrowers against any loss in relation to borrowers' breaches of or non compliance with the agreements.

Security

Working capital facilities in the amount of approximately US$5 million have been secured in the form of a mortgage or pledge over land, buildings and machinery.

Guarantee

The Company and certain of our subsidiaries have entered into various guarantee agreements to guarantee the indebtedness of the borrower subsidiaries under the bank facilities with Citibank (China) Co., BNP Paribas (China) Limited, Credit Union of Xuzhou, Industrial and Commercial Bank of China, Bank of China, Ho Chi Minh City Branch, China Merchants Bank, Deutsche Bank AG, Hong Kong Branch, HSBC, Industrial Bank Co., Ltd. and The Royal Bank of Scotland plc.

Trade Finance Facilities

Certain of our PRC subsidiaries have entered into trade finance facility agreements with Agricultural Bank of China, Bank of China, Bank of Jiangsu, Bank of Tianjin, China Merchants Bank, Industry and Commercial Bank of China and Standard Chartered Bank (China) Limited, respectively. Sunray Trading and Sunray Macao have entered into trade finance facility agreements with Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, Citic Bank International Limited, Commerzebank Aktiengesellschaft, DBS Bank Ltd., Overseas-Chinese Banking Corporation, HSBC and Standard Chartered Bank (Hong Kong) Limited. The maximum amount of facilities available under these agreements in aggregate is US$311 million, US$204 million and RMB 715 million, respectively. These trade finance facilities are uncommitted and the lenders have the discretion to cancel or suspend, determine whether or not to permit drawings and demand repayment at any time and for any reason, in relation to these facilities. The banks are entitled to open commissions calculated at fixed rates or interest at a floating rate calculated by reference to the relevant interbank offered rate. These facilities are generally secured by guarantee agreements from the Company and certain subsidiaries of the Company (see "— Guarantee" below).

Covenants and undertakings

Under the trade finance facilities, the relevant subsidiaries (each in the capacity of borrower and/or guarantor) have agreed, among other things, to:

- use the proceeds from the borrowings as designated;
- maintain a minimum net worth;
- maintain the borrower's gearing ratio of the Company at not more than 0.95x;
- seek written consent from lenders on important events such as making substantial overseas investment, incurrence of substantial indebtedness, amalgamation, spin-off and change of control;
- ensure that all consents, licences, approvals, registrations and filings (as approprirate) in connection with the facilities and/or guarantees are duly obtained, completed and will remain in full effect throughout the period when there are still outstanding loans;
- sign for insurance policies to cover the assets relevant to the facilities with the lenders as beneficiaries;
- notify lenders of any event that may affect the value of the secured assets;
- maintain the borrowers' status as wholly owned subsidiaries of the Company;
- ensure the Company to maintain the listing status on the Stock Exchange of Hong Kong Limited;

- ensure Mr. Hong Tianzhu to remain as the chairman and single largest shareholder of the Company;
- ensure the borrowers, the guarantors or any subsidiary not to create or permit to exist any mortgage, pledge, lien, charge, assignment or security interest over their assets except for permitted encumbrance;
- notify the lenders with respect to any change to the borrowers' directors or beneficial shareholders, constitutional documents and the scope or general nature of the existing business;
- channel inward cash flow of a minimum amount to the accounts in the lenders;
- seek consent from lenders on providing security to others (or providing securities to others in excess of a certain threshold) which may affect the borrowers' ability to make repayment under the respective agreements;
- give prior notice to and/or seek written consent from the lenders on any assignment of the borrowers' obligations to a third party;
- ensure the lenders' interests under the facilities not to be adversely affected if the borrowers have entered into or are to enter into reverse guarantees or similar agreements in connection with the relevant guarantees;
- give written notice to and seek consent from the lenders on amalgamation, reorganization, reconstruction, contracting of operation, association, spin-off, disposal of any substantial assets or equity interest, change of control, making substantial overseas investment, incurring substantial indebtedness, entering into related transactions, applying for bankruptcy, and other similar events that would have a material impact on the borrower's capability to repay the relevant loans; and
- ensure the claims of the lender against the borrower under the facilities agreement to be ranked at least *pari passu* with the claims of all other unsecured and unsubordinated creditors of the borrowers.

Under the trade finance facilities and the relevant guarantees in connection with such trade finance facilities, the Company (in its capacity as guarantor) has also agreed, among other things, to:

- guarantee each obligation the borrowers may have to the lenders and pay to the lenders on demand the unpaid balance owing, due or payable by the borrowers to the lenders in respect of any such liability;
- ensure that the proceeds from the borrowings are used as designated;
- ensure that the obligations under the facility agreements and/or the relevant guarantees will at all times rank *pari passu* with all other present or future unsecured and unsubordinated obligations;
- provide financial information to the lenders;
- ensure the borrowers to sign for insurance policies with reputable insurers;
- ensure the borrowers, the Company or any subsidiary not to create or permit to exist any mortgage, pledge, lien, charge, assignment or security interest over their assets except for permitted encumbrances;
- maintain its listing status on the Stock Exchange of Hong Kong; and

- give prior notice to and/or seek consent from the lenders on incurring in substantial additional indebtedness, merger, change of control, making substantial overseas investment and other similar events that would have a material impact on the borrower's capability of repayment of the relevant loans.

In addition:

- pursuant to the facility agreement between Sunray Trading and Sunray Macao as borrowers, Standard Chartered Bank (Hong Kong) Limited as lender and the Company as guarantor, the Company has agreed, among other things, to maintain its Consolidated Net Worth of not less than HK$800,000,000;

- pursuant to the facility agreement between Sunray Trading and Sunray Macao as borrowers, the Company as guarantor and Oversea-Chinese Banking Corporation Limited as lender, the Company has agreed, among other things, to maintain (i) Consolidated Tangible Net Worth of not less than RMB1,000 million; (ii) Consolidated Total Borrowings to Consolidated Tangible Net Worth not higher than 1.00x; and (iii) Current Ratio (Total Current Assets by Total Current Liabilities) of not less than 1 time. Sunray Macao, Sunray Trading and the Company have obtained in relation to this offering and the issuance of the Notes a waiver dated December 24, 2010 from Oversea-Chinese Banking Corporation Limited of the Company's financial covenant to maintain Consolidated Total Borrowings to Consolidated Tangible Net Worth at not higher than 1.00x until such time all amounts due under the 2010 Facility Agreement are repaid in full and the Index-Linked Notes are redeemed in full;

- pursuant to an amendment letter from Bank of China (Hong Kong) Limited dated 24 December 2010 in relation to the facility agreements between Sunray Trading and Sunray Macao as borrowers, the Company as guarantor and Bank of China (Hong Kong) Limited as lender, the Company has agreed to maintain (i) its Consolidated Tangible Net Worth shall not be less than RMB 1,700,000,000; (ii) its Consolidated Total Borrowings to Consolidated Tangible Net Worth shall not at any time be more than 1x (except for the period between the date of issuance of an additional senior unsecured indebtedness for the principal amount of up to US$200 million (the "Additional Debt"); (iii) the Consolidated Total Borrowings to Consolidated Tangible Net Worth shall be more than 1x but shall not at any time be more than 1.4x; (iv) its Consolidated Current Assets to Consolidated Current Liabilities shall not at any time be less than 1x; (v) its Consolidated EBIT to Consolidated Interest Expense shall not at any time be less than 2x; and (vi) the Group's minimum free cash balance shall not at any time be less than RMB200,000,000; (as such capitalized terms are defined in such facility agreements). Bank of China (Hong Kong) Limited confirmed that issuance of Additional Debt would not constitute or trigger an event, which would have a material adverse change under the general terms and conditions of the facility;

- pursuant to an amendment letter from DBS dated 28 December 2010 in relation to the facility agreement between Sunray Macao as borrower and DBS Bank (Hong Kong) Limited as lender, Sunray Macao has agreed, among other things, to maintain its gearing ratio of the Company at not more than 0.95x beginning May 1, 2011;

- pursuant to the facility between Sunray Macao and Sunray Trading as borrowers, the Company as guarantor and HSBC as lender, the Company has agreed to maintain (i) EBIT/Interest ratio at not less than 2.0; and (ii) net external gearing ratio at not more than 1.0; and

- pursuant to a letter of undertaking from the Company to Bank of China, Ho Chi Minh City Branch, in connection with a trade finance facility agreement between Texhong Vietnam

Textile Joint Stock Company as borrower and Bank of China, Ho Chi Minh City Branch as lender, the Company has agreed to (i) give prior notice to and seek consent from the lender if there is change of control of the borrower; and (ii) ensure that Texhong Vietnam Textile Joint Stock Company's debt-to-asset ratio shall not exceed 72% and Texhong Vietnam Textile Joint Stock Company's debt to equity shall not exceed 2.57

(as such capitalized terms are defined in the respective facility agreements).

Event of Default

These facilities contain certain customary events of default, including non-payment, insolvency, cross-default, misrepresentation, breaches of other terms of the facility agreement, breaches of the terms of the guarantee by the guarantor. The lenders are entitled to cancel the total commitments, demand immediate repayment of all of the loans and/or enforce the security where applicable upon the occurrence of an event of default, which determination with respect to certain trade facilities are in the broad discretion of the lenders. The lenders are also entitled for indemnify from the borrowers against any loss in relation to borrowers' breaches of or non compliance with the agreements.

Guarantee

The Company and certain of our subsidiaries have entered into various guarantee agreements to guarantee the indebtedness of the borrower subsidiaries under the bank facilities with Agricultral Bank of China, Bank of China, Bank of Jiangsu, Bank of Tianjin, China Merchants Bank, Industrial and Commercial Bank of China, Standard Chartered Bank (China) Limited; Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, Citic Bank International Limited, Commerzebank Aktiengesellschaft, DBS Bank Ltd., Overseas-Chinese Banking Corporation, HSBC and Standard Chartered Bank (Hong Kong) Limited.

Project Finance Facilities

Bank of China Project Finance Agreement

Xuzhou Texhong Times entered into a RMB118,000,000 facility agreement dated June 1, 2010 as borrower, Texhong (China) Investment Co., Ltd. as guarantor and Bank of China, Suining Branch as lender.

Purpose

The proceeds of the facility shall be used to finance Phase II construction of the 100,000-spindle expansion project.

Interest

This facility bears an interest rate in respect of each loan for each interest period of 5% per annum above the 3-5 year lending benchmark interest rate published by People's Bank of China. Every twelve (12) months the interest rate shall be reset by reference to the applicable benchmark.

Maturity

The termination date is 60 months from the date of the first utilization.

Undertakings and Covenants

The borrower and/or guarantor have agreed, among other things, to:

- provide financial information to the lender;
- use the proceeds from the borrowing as designated;
- ensure the lender's interests under this facility will not be adversely affected if the borrower has entered into or is to enter into a reverse guarantee or similar agreement in connection with the guarantee;
- seek consent from the lender on amalgamation, reorganization, restruction, spin-off, disposal of any substantial assets or equity interest, change of control, incurring substantial indebtedness, and other similar events that would have a material impact on the borrower's capability to repay the relevant loans;
- not distribute dividends to its shareholders until this facility has been fully repaid;
- not create or permit to exist any pledge, pledge guarantee or other security interest over the borrower's fixed assets;
- ensure that the obligations under this facility agreement and the relevant guarantee will at all times rank *pari passu* with all other present or future unsecured and unsubordinated obligations;
- notify the lender if there is any change to the operation model or corporate governance, for example, association, joint venture, contracting of operation, restructuring or obtaining the listing status;
- notify the lender of important events such as suspension of operations, suspension of license or registration, material litigation, incurring substantial indebtedness, deterioration of financial condition, or application for bankruptcy declaration; and
- notify the lender with respect to the change to the borrower's or the guarantor's legal representative, memorandum and articles of association, registered capital, business scope and others.

Event of Default

This facility contain certain customary events of default, including non-payment, insolvency, cross-default, misrepresentation, breaches of other terms of the facility agreement, breaches of the terms of the guarantee by the guarantor. In addition, failure to comply with any of its covenants as summarized above would constitute an event of default under this agreement. The lender is entitled to cancel the total commitments, terminate the agreement and demand immediate repayment of all of the loans upon the occurrence of an event of default. The lender is also entitled for indemnify from the borrowers against any loss in relation to the borrowers' breaches of or non-compliance with the agreements.

DEG Project Finance Agreements

Xuzhou Texhong Times as borrower entered into (i) a US$9,000,000 facility agreement dated June 6, 2005, with DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH ("DEG") as lender and the Company as guarantor (the "DEG I Project Finance Agreement"); and (ii) a US$15,000,000 facility agreement dated May 7, 2010, with DEG as lender and the Company as guarantor (the "DEG II Project Finance Agreement"). US$2,700,000 is currently outstanding under the DEG I Project Finance Agreement. The DEG II Project Finance Agreement was sponsored, as evidenced in a sponsor support agreement dated May 7, 2010 (the "Sponsor Support Agreement"), by the following sponsors: (i) Texhong (China) Investment Co. Ltd., (ii) Texhong Textile (Hong Kong) Holdings Ltd., (iii) the Company, (iv) Mr. Hong Tianzhu, (v) Texhong Textile Holdings Limited, British Virgin Islands, (vi) Texhong Textile (Hong Kong) Ltd., Hong Kong, and (vii) Texhong Textile Investment Limited, British Virgin Islands.

Purpose

The proceeds of each facility shall be used to finance the respective project described therein.

Interest

The DEG I Project Finance Agreement provides that the borrower shall pay interest on the disbursed amount of the loan at six months USD LIBOR rate plus 2.6% per annum. The DEG II Project Finance Agreement provides that the borrower shall pay interest on the disbursed amount of the loan at six months USD LIBOR rate plus 4% per annum. The borrower has the right to convert the floating interest rate to a fixed interest rate under both agreements.

Maturity

The termination date of DEG I Project Finance Agreement is April 15, 2012 and the termination date of DEG II Project Finance Agreement is October 15, 2016.

Covenants

The borrower has agreed, among other things, under the DEG I Project Finance Agreement and the DEG II Project Finance Agreement to:

- ensure DEG's claims under both agreements are always serviced and secured at least equally with those of other long-term lenders and not prepay other loans;
- maintain at all times the following ratios of the borrower: (i) Debt/Equity Ratio not exceeding 1.5; (ii) Current Ratio not less than 1.0; and (iii) Debt Service Coverage Ratio (starting from the first full operational year) not less than 1.2;
- notify DEG promptly of any legal action or any occurrence which may substantially and adversely affect the commercial or financial position of the borrower or the ability of borrower to perform its obligations under the agreements and of the occurrence or potential occurrence of any Event of Default;
- seek DEG's consent on sale, transfer or otherwise disposal of significant components of its fixed assets, any change to its purpose or its constitutional documents in a way which is inconsistent with the either of the agreements, or merger or liquidation;
- seek DEG's consent on incurrence liabilities (with exceptions listed therein) exceeding the aggregate of more than US$2,500,000 per year;
- seek DEG's consent on making any dividend or other capital distribution or payment on or in respect of any shareholder loan or advance as long as Event of Default is subsisting or is threatening to occur;
- seek DEG's consent on entering into any partnership, profit sharing or other similar agreement whereby the borrower's income or profit can be shared with any other person; and
- seek DEG's consent on entering into or continuing business relations with its shareholders, employees and associated companies except on proper commercial terms negotiated at arm's-length.

The parties have also agreed under the Sponsor Support Agreement that:

- the parties shall subordinate any loans granted by the sponsors to the borrower to the loans under the DEG II Project Finance Agreement;
- the sponsors shall seek consent from DEG on sale, assignment, transfer or otherwise disposal of, creation any lien over, pledge or encumbrance in any portion of the shares of the borrower;
- the proceeds from the loans under the DEG II Project Finance Agreement shall be used as designated;
- the Company shall comply with the financial covenants in other facility agreements and maintain the following financial ratio: (i) Debt Equity Ratio not exceeding 1.5; (ii) Current Ratio not less than 1.0; and (iii) Debt Service Coverage Ratio not less than 1.2; and
- the Company shall maintain (i) total bank borrowing to EBITDA not exceeding 3.8 and (ii) EBIT to interest expenses not less than 2, until the 2010 Facility Agreement has been fully repaid,

(as such capitalized terms are defined in the respective DEG Project Finance Agreements).

Security

A first ranking mortgage on the borrower's New Land and New Buildings in the amount of US$15,000,000 was created and registered to secure the obligations of the borrower under DEG II Project Finance Agreement and a first ranking mortgage on its Existing Land and Existing Building in the current book value of US$11,000,000 was created and registered to secure the outstanding loan amount of US$4,500,000 as of 31 January 2010 regarding the loans under the DEG I Project Finance Agreement.

Event of Default

The DEG I Project Finance Agreement and the DEG II Project Finance Agreement contain certain customary events of default, including non-payment, misrepresentation by the borrower or the sponsors, cross-default and breaches of other terms in either of the agreements, insolvency, bankruptcy and any material adverse change. DEG is entitled to demand immediate repayment of the Loan or any part thereof together with accrued interest and other sums due by the borrower under each agreement and/or to terminate the respective agreement promptly. In addition, DEG is also entitled under the DEG II Project Finance Agreement to cancel the total outstanding commitment of the loan.

The 2010 Facility Agreement

The Company entered into a US$43,000,000 syndicated facility agreement dated April 26, 2010 as borrower, with BNP Paribas, Citigroup Global Markets Asia Limited, Citibank (China) Co., Ltd., and Standard Chartered Bank (Hong Kong) Limited acting as mandated lead arrangers, Wing Lung Bank Limited as lead arranger, Public Bank (Hong Kong) Limited, Shenzhen Branch as senior manager, and Citicorp International Limited as Agent for the purpose of refinancing the Company's existing indebtedness under a US$80,000,000 facility agreement dated June 15, 2007. The Company drew down the full amount of US$43,000,000 on June 11, 2010 (the "2010 Facility Loan").

Interest

The 2010 Facility Loan bears an interest rate in respect of each loan for each interest period of 2.85% per annum above the applicable LIBOR. Alternative basis of interests or funding is also available. The Company has elected an interest period of one month.

Maturity

The termination date is 36 months after the date of the 2010 Facility Agreement.

Undertakings and Covenants

The Company and the guarantors, which are the Company's subsidiaries, have undertaken to, among others, (i) provide financial information to the lenders and agent; and (ii) notify the agent of any event of default.

The Company has covenanted, among others, to ensure:

- its Consolidated Tangible Net Worth shall not at any time be less than RMB1,200,000,000;
- its Consolidated Total Borrowings shall not at any time exceed 95 per cent of Consolidated Tangible Net Worth;
- its Consolidated Total Borrowings at the end of any relevant period shall not exceed Consolidated EBITDA in respect of that relevant period (i) 3.2 for the relevant period ended December 31, 2009, and (ii) 3.0 for each subsequent relevant period ending thereafter;
- its Total Pledged Assets shall not at any time exceed the lower of RMB575,000,000 or 17% of the Consolidated Total Assets;
- its Consolidated Total Borrowings secured by any security shall not at any time exceed the lower of RMB300,000,000 or 25 per cent of Consolidated Total Borrowings;
- its aggregate amount of Free Cash shall exceed RMB200,000,000 at all times;
- not to, and ensure no other member of the Group will, create or permit to subsist any security over any of its assets, including without limitation any shares in the PRC subsidiaries listed therein;
- not to, and ensure no other member of the Group will, dispose any major asset; and
- not to declare or pay any dividends in the form of cash in excess of 40 per cent of its Consolidated Net Profit after tax in any financial year

(as such capitalized terms are defined in the 2010 Facility Agreement).

Events of Default

The 2010 Facility Agreement contain certain customary events of default, including non-payment, insolvency, and breaches of terms of the facilities agreements, misrepresentation, cross-default, unlawfulness and material adverse change. In addition, failure to comply with any of its undertakings and covenants as summarized above would constitute an event of default under the 2010 Facility Agreement. The agent, if directed by the majority lenders, is entitled to cancel the total commitments, and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

Waiver

The Company has obtained the consent of the majority lenders under the 2010 Facility Agreement for a waiver of its undertaking that its Consolidated Total Borrowings shall not at any time exceed 95 per cent of Consolidated Tangible Net Worth and any other breaches which are incidental to the incurrence of additional senior unsecured indebtedness in connection with the issuance of the Notes, pending our repayment of the 2010 Facility Loan. We intend to repay the 2010 Facility Loan using a portion of the net proceeds from the offering on the last day of the then current Interest Period or on the last day of the immediately succeeding Interest Period if the proceeds are received less than 15 days before the end of the then current Interest Period. See "Use of Proceeds."

Other Facilities

The Company has entered in a facility agreement with Standard Chartered Bank (Hong Kong) Limited for purposes of general working capital as well as trade finance and treasury requirements. The Company has agreed, among others, to (i) provide financial information to the lender; and (ii) notify the lender of (x) any change of the Company's directors or beneficial shareholders or amendments to its constitutional documents, (y) substantial change to the general nature of the Company's existing business and (z) if any of its directors, shareholders, partners or managers becomes a related person.

US$25,000,000 Guaranteed Index-linked Notes due 2012

On July 27, 2007, we issued US$25,000,000 Guaranteed Index-linked Notes due 2012 (the "Index-linked Notes") under a trust deed dated July 27, 2007 between the Company as issuer, the subsidiary guarantors thereunder and DB Trustees (Hong Kong) Limited as Trustee (the "Trust Deed"). The Index-linked Notes constitute direct, unsubordinated and unsecured obligations of the Company and the Index-linked Notes shall at all times rank *pari passu* and without preference or priority among themselves.

The Trust Deed contains certain limitations on the Company and subsidiary guarantors, including, among others, indebtedness, restricted payments, dividend and other payment restrictions affecting restricted subsidiaries, sales and issuances of capital stock in restricted subsidiary, transactions with shareholders and affiliates, liens, sale-leaseback transactions, asset sales, consolidation, merger and use of proceeds.

The Index-linked Notes are payable bearing interests: (i) at a fixed rate of 6.8% per annum from July 2007 to June 2008, (ii) at various rates based a formula making reference to Deutsche Bank Municipal Forward Fate Bias Index from July 2008 to June 2009, and (iii) at a fixed rate of 6.8% per annum from July 2009.

The Trust Deed contains various events of default, including, among others, non-payment, breach of other obligations set forth in the Index-linked Notes and the Trust Deed, cross-default, winding-up or insolvency.

As of the date of this Offering Memorandum, the Index-linked Notes are 100% held by Deutsche Bank AG, London Branch.

The Company has obtained the consent of the Noteholders by written Extraordinary Resolution to waive any breaches of the terms of the Index-linked Notes and the Trust Deed in relation to this offering and the issuance of the Notes pending our redemption of the Index-linked Notes. We intend to redeem the Index-linked Notes in full using a portion of the net proceeds from this offering within one business day after receipt of the net proceeds.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Texhong Textile Group Limited

Condensed consolidated balance sheet
As at 31 October 2010

	Note	Unaudited 31 October 2010 RMB'000	Audited 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	151,644	154,483
Property, plant and equipment	6	1,665,808	1,435,545
Investment in an associate		36,776	34,858
Deferred income tax assets		10,794	2,601
Total non-current assets		1,865,022	1,627,487
Current assets			
Inventories		1,023,545	714,655
Trade and bills receivables	7	600,222	435,465
Prepayments, deposits and other receivables	8	467,048	112,193
Pledged bank deposits		23,488	15,899
Cash and cash equivalents		217,970	392,003
Total current assets		2,332,273	1,670,215
Total assets		4,197,295	3,297,702
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	13	94,064	94,064
Other reserves		528,153	529,714
Retained earnings		1,312,047	862,887
Total equity		1,934,264	1,486,665
LIABILITIES			
Non-current liabilities			
Borrowings	11	622,752	276,585
Deferred income tax liabilities		38,737	24,137
Total non-current liabilities		661,489	300,722
Current liabilities			
Trade and bills payables	9	766,421	510,602
Accruals and other payables	10	349,218	282,741
Current income tax liabilities		12,294	8,798
Borrowings	11	473,360	707,869
Derivative financial instruments	12	249	305
Total current liabilities		1,601,542	1,510,315
Total liabilities		2,263,031	1,811,037
Total equity and liabilities		4,197,295	3,297,702
Net current assets		730,731	159,900
Total assets less current liabilities		2,595,753	1,787,387

The notes on pages F-6 to F-21 form an integral part of this condensed consolidated financial information.

Texhong Textile Group Limited

Condensed consolidated statement of comprehensive income
For the ten months ended 31 October 2010

	Note	Unaudited Ten months ended 31 October 2010 RMB'000	2009 RMB'000
Revenue	4	4,392,674	3,254,338
Cost of sales		(3,489,517)	(2,814,523)
Gross profit		903,157	439,815
Selling and distribution costs		(112,560)	(92,026)
General and administrative expenses		(124,045)	(106,902)
Other income	15	48,289	10,596
Other losses - net	15	(20)	(2,125)
Operating profit		714,821	249,358
Finance income	17	2,346	3,101
Finance costs	17	(39,268)	(40,065)
Share of profit/(loss) of an associate		1,918	(1,744)
Profit before income tax		679,817	210,650
Income tax expense	18	(88,911)	(21,631)
Profit for the period		590,906	189,019
Other comprehensive income		-	-
Total comprehensive income for the period, attributable to equity holders of the Company		590,906	189,019
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	19	0.668	0.214
Dividends	20	84,938	27,282

The notes on pages F-6 to F-21 form an integral part of this condensed consolidated financial information

Texhong Textile Group Limited

Condensed consolidated statement of changes in equity
For the ten months ended 31 October 2010

	Unaudited			
	Share capital RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance at 1 January 2009	94,064	510,434	623,884	1,228,382
Profit for the period	-	-	189,019	189,019
Other comprehensive income				
-Transfer from revaluation reserve to retained earnings				
- gross	-	(2,217)	2,217	-
- deferred income tax	-	656	(656)	-
Total comprehensive income for the period ended 31 October 2009	-	(1,561)	190,580	189,019
Transactions with owners in their capacity as owners				
Dividends relating to 2009 paid in October 2009	-	-	(27,282)	(27,282)
Balance at 31 October 2009	94,064	508,873	787,182	1,390,119
Balance at 1 January 2010	94,064	529,714	862,887	1,486,665
Profit for the period	-	-	590,906	590,906
Other comprehensive income				
-Transfer from revaluation reserve to retained earnings				
- gross	-	(2,217)	2,217	-
- deferred income tax	-	656	(656)	-
Total comprehensive income for the period ended 31 October 2010	-	(1,561)	592,467	590,906
Transactions with owners in their capacity as owners				
Dividends relating to 2009 paid in May 2010	-	-	(58,369)	(58,369)
Dividends relating to 2010 paid in September 2010	-	-	(84,938)	(84,938)
Transactions with owners	-	-	(143,307)	(143,307)
Balance at 31 October 2010	94,064	528,153	1,312,047	1,934,264

The notes on pages F-6 to F-21 form an integral part of this condensed consolidated financial information.

Texhong Textile Group Limited

Condensed consolidated cash flow statement
For the ten months ended 31 October 2010

	Unaudited Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	274,591	201,158
Interest received	2,346	3,101
Income tax paid	(79,008)	(23,428)
Cash flows from operating activities – net	197,929	180,831
Cash flows from investing activities		
Purchases of property, plant and equipment	(294,880)	(62,469)
Proceeds from disposal of property, plant and equipment	2,630	2,859
Acquisition of land use rights	-	(12,400)
Increase in pledged bank deposits	(7,589)	(82,990)
Cash flows from investing activities – net	(299,839)	(155,000)
Cash flows from financing activities		
Proceeds from borrowings	804,447	672,992
Repayments of borrowings	(678,106)	(623,414)
Interest paid	(55,157)	(40,151)
Dividend paid	(143,307)	(27,282)
Cash flows from financing activities – net	(72,123)	(17,855)
Net (decrease)/increase in cash and cash equivalents	(174,033)	7,976
Cash and cash equivalents at beginning of the period	392,003	313,012
Cash and cash equivalents at end of the period	217,970	320,988

The notes on pages F-6 to F-21 form an integral part of this condensed consolidated financial information.

Texhong Textile Group Limited

Notes to the condensed consolidated financial information
For the ten months ended 31 October 2010

1. General information

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of yarn, grey fabrics and garment fabrics.

The Company was incorporated in Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2004.

These condensed financial information are presented in Chinese Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated financial information has not been audited.

2. Basis of preparation

This condensed consolidated financial information for the ten months ended 31 October 2010 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with HKFRSs.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following standards, amendments and interpretations to existing standards are effective for the financial year beginning 1 January 2010 but not relevant to the Group:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This is not applicable to the Group, as it has not had any business combinations during the year.

3. Accounting policies (continued)

The following standards, amendments and interpretations to existing standards are effective for the financial year beginning 1 January 2010 but not relevant to the Group (continued):

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will apply the revised HKAS 24 from 1 January 2011.

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. This is not currently applicable to the Group.

3. Accounting policies (continued)

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group (continued):

- Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.

- HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted. The Group will apply the interpretation from 1 January 2011.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

4. Revenue and segmental information

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics. Revenues recognised for the period ended represented sales of goods, net of value-added tax.

The chief operating decision-maker has been identified as the Committee of Executive Directors of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Committee of Executive Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee of Executive Directors considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance from sales of yarn, grey fabrics and garment fabrics. The operations are further evaluated on a geographic basis including Mainland China, Vietnam and other territories.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

4. Revenue and segmental information (continued)

The segment information for the ten months ended 31 October 2010 is as follows:

	Ten months ended 31 October 2010					
	Yarn			Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Other territories	Mainland China	Mainland China	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	3,473,415	1,347,040	1,324,163	794,320	117,023	7,055,961
Inter-segment revenue	(493,965)	(876,165)	(1,293,157)	-	-	(2,663,287)
Revenue (from external customers)	2,979,450	470,875	31,006	794,320	117,023	4,392,674
Segment results	405,941	215,046	48,633	38,741	14,543	722,904
Unallocated expenses						(8,083)
Operating results						714,821
Finance income						2,346
Finance costs						(39,268)
Share of profit of an associate						1,918
Income tax expense						(88,911)
Profit for the period						590,906
Depreciation and amortisation	(54,175)	(44,129)	(151)	(17,664)	(2,006)	(118,125)

4. Revenue and segmental information (continued)

The segment information for the ten months ended 31 October 2009 is as follows:

	Ten months ended 31 October 2009					
	Yarn			Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Other territories	Mainland China	Mainland China	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	2,468,776	909,073	530,388	622,340	93,192	4,623,769
Inter-segment revenue	(196,741)	(649,804)	(522,886)	-	-	(1,369,431)
Revenue (from external customers)	2,272,035	259,269	7,502	622,340	93,192	3,254,338
Segment results	118,504	119,383	(6,465)	14,455	12,283	258,160
Unallocated expenses						(8,802)
Operating results						249,358
Finance income						3,101
Finance costs						(40,065)
Share of loss of an associate						(1,744)
Income tax expense						(21,631)
Profit for the period						189,019
Depreciation and amortisation	(47,912)	(32,552)	(243)	(16,878)	(2,437)	(100,022)

4. Revenue and segmental information (continued)

The segment assets and liabilities as at 31 October 2010 are as follows:

	As at 31 October 2010						
	Yarn				Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Other territories	Sub-total	Mainland China	Mainland China	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment assets	2,366,507	1,103,188	51,041	3,520,736	549,014	106,512	4,176,262
Unallocated assets							21,033
Total assets of the Group							4,197,295
Total segment liabilities				(1,669,674)	(169,316)	(18,009)	(1,856,999)
Unallocated liabilities							(406,032)
Total liabilities of the Group							(2,263,031)
Capital expenditure	257,161	91,166	67	348,394	499	5	348,898

The segment assets and liabilities as at 31 December 2009 are as follows:

	As at 31 December 2009						
	Yarn				Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Other territories	Sub-total	Mainland China	Mainland China	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment assets	1,738,945	972,994	35,502	2,747,441	451,783	96,281	3,295,505
Unallocated assets							2,197
Total assets of the Group							3,297,702
Total segment liabilities				(1,238,149)	(111,267)	(14,940)	(1,364,356)
Unallocated liabilities							(446,681)
Total liabilities of the Group							(1,811,037)
Capital expenditure	67,486	57,141	447	125,074	7,765	1,891	134,730

5. Land use rights

	RMB'000
Ten months ended 31 October 2009	
Opening net book amount as at 1 January 2009	116,482
Additions	12,400
Amortisation	(1,854)
Closing net book amount as at 31 October 2009	127,028
Ten months ended 31 October 2010	
Opening net book amount as at 1 January 2010	154,483
Amortisation	(2,839)
Closing net book amount as at 31 October 2010	151,644

As at 31 October 2010, land use rights with a net book amount of RMB52,344,000 (31 December 2009: RMB10,897,000) was pledged as collateral of the Group's bank borrowings (Note 11).

6. Property, plant and equipment

	RMB'000
Ten months ended 31 October 2009	
Opening net book amount as at 1 January 2009	1,467,211
Additions	40,623
Disposals	(4,277)
Depreciation	(98,168)
Closing net book amount as at 31 October 2009	1,405,389
Ten months ended 31 October 2010	
Opening net book amount as at 1 January 2010	1,435,545
Additions	348,898
Disposals	(3,349)
Depreciation	(115,286)
Closing net book amount as at 31 October 2010	1,665,808

During the ten months ended 31 October 2010, interest expenses of RMB126,000 (2009: RMB1,631,000) were capitalised as part of property, plant and equipment at a rate of 6.0% (2009: 6.1%) per annum.

As at 31 October 2010, property, plant and equipment of approximately RMB439,250,000 (31 December 2009: RMB435,021,000) were pledged as collateral of the Group's bank borrowings (Note 11).

7. Trade and bills receivables

	31 October 2010 RMB'000	**31 December 2009** RMB'000
Trade receivables	168,981	92,932
Less: provision for impairment	(1,746)	(2,936)
	167,235	89,996
Bills receivables	432,987	345,469
	600,222	435,465

7. Trade and bills receivables (continued)

The Group generally grants credit terms of less than 90 days to its customers. The ageing analysis of the trade and bills receivables was as follows:

	31 October 2010	**31 December 2009**
	RMB'000	RMB'000
Within 30 days	362,953	229,247
31 to 90 days	142,138	119,999
91 to 180 days	94,439	85,516
181 days to 1 year	613	1,027
Over 1 year	1,825	2,612
	601,968	438,401
Less: provision for impairment	(1,746)	(2,936)
Trade and bills receivables – net	600,222	435,465

8. Prepayments, deposits and other receivables

	31 October 2010	**31 December 2009**
	RMB'000	RMB'000
Prepayments for purchase of raw materials	371,786	93,144
Staff advances	419	870
Value-added tax recoverable	32,371	13,748
Prepaid expenses	3,868	165
Deposits	58,005	2,995
Other receivables	599	1,271
	467,048	112,193

As at 31 October 2010, included in prepayments for purchase of raw materials were amount due from an associate of RMB215,000 (31 December 2009: nil) (Note 22).

9. Trade and bills payables

	31 October 2010	**31 December 2009**
	RMB'000	RMB'000
Trade payables	141,196	243,267
Bills payables	625,225	267,335
	766,421	510,602

As at 31 October 2010, included in the trade payables was an amount due to an associate of RMB247,000 (31 December 2009: RMB2,010,000) (Note 22).

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

	31 October 2010	**31 December 2009**
	RMB'000	RMB'000
Within 90 days	708,900	326,513
91 to 180 days	55,002	180,288
181 days to 1 year	1,963	1,324
Over 1 year	556	2,477
	766,421	510,602

10. Accruals and other payables

	31 October 2010	31 December 2009
	RMB'000	RMB'000
Accrued wages and salaries	41,005	40,371
Accrual of operating expenses	36,492	19,419
Interest payable	5,511	6,591
Deposits from customers	71,115	45,655
Other deposits	3,992	2,913
Payables for purchase of property, plant and equipment	158,545	104,653
Other payables	18,365	54,317
Tax payables other than Mainland China enterprise income tax	14,193	8,822
	349,218	282,741

11. Borrowings

	31 October 2010	31 December 2009
	RMB'000	RMB'000
Current		
Secured bank borrowings (Note (a))	79,364	75,099
Other bank borrowings (Note (b))	322,070	370,098
Unsecured bank borrowings (Note (c))	71,926	262,672
	473,360	707,869
Non-current		
Secured bank borrowings (Note (a))	158,728	97,603
Other bank borrowings (Note (b))	86,383	8,277
Unsecured bank borrowings (Note (c))	210,371	-
Notes payable (Note (d))	167,270	170,705
	622,752	276,585
Total borrowings	1,096,112	984,454

Notes:

(a) Bank borrowings of RMB238,092,000 (31 December 2009: RMB172,702,000) were secured by the followings:

(i) pledge of the Group's property, plant and equipment with a net book amount of approximately RMB439,250,000 as at 31 October 2010 (31 December 2009: RMB435,021,000); and

(ii) pledge of the Group's land use rights with a net book amount of RMB52,344,000 as at 31 October 2010 (31 December 2009: RMB10,897,000).

11. Borrowings (continued)

(b) Other bank borrowings were secured by cross corporate guarantees provided by certain subsidiaries totalling of RMB408,453,000 as at 31 October 2010 (31 December 2009: RMB378,375,000).

(c) Mr. Hong Tianzhu, chairman and an executive director, has undertaken to maintain at least 30% equity interest in the Company unless otherwise agreed by the relevant bank in respect of the provision of the unsecured non-current bank borrowings.

(d) The notes payable as at 31 October 2010 represented US$25 million (31 December 2009: US$25 million) guaranteed notes which will mature in 2012. The notes payable bear interest at fixed rate of 6.8% per annum since July 2009. The notes are guaranteed by certain subsidiaries of the Group.

Movements in borrowings are analysed as follows:

	RMB'000
Ten months ended 31 October 2009	
Opening amount 1 January 2009	1,076,874
Proceeds from borrowings	672,992
Repayments of borrowings	(623,414)
Exchange gains on borrowings	(1,504)
Closing amount as at 31 October 2009	1,124,948
Ten months ended 31 October 2010	
Opening amount 1 January 2010	984,454
Proceeds from borrowings	804,447
Repayments of borrowings	(678,106)
Exchange gains on borrowings	(14,683)
Closing amount as at 31 October 2010	1,096,112

The carrying amounts of the borrowings are denominated in the following currencies:

	31 October 2010 RMB'000	**31 December 2009** RMB'000
RMB	400,000	347,500
United States dollars	687,658	621,151
Hong Kong dollars	8,454	10,390
Vietnam Dong	-	5,413
	1,096,112	984,454

The weighted average effective interest rate per annum on 31 October 2010 was 5.0% (31 December 2009: 4.5%)

Interest expense on borrowings for the ten months ended 31 October 2010 is RMB54,077,000 (2009: RMB43,200,000).

The Group has the following undrawn borrowing facilities:

	31 October 2010 RMB'000	**31 December 2009** RMB'000
Floating rate:		
– expiring within one year	158,997	172,036

12. Derivative financial instruments

	31 October 2010 RMB'000	**31 December 2009** RMB'000
Interest rate swap contract	249	305

Non-hedging derivative is classified as a current asset or a current liability.

The notional principal amount of the outstanding interest rate swap contract at 31 October 2010 was RMB18,065,000 (31 December 2009: RMB30,727,000).

At 31 October 2010, the fixed interest rate was 1.86% (31 December 2009: 1.86%) and the floating rate was with reference to London Inter Bank Offered Rate ("LIBOR").

13. Share capital

	Ordinary shares of HK$0.1 each		
	Number of shares '000	HK$'000	RMB'000
Authorised:			
At 31 December 2009 and 31 October 2010	4,000,000	400,000	
Issued and fully paid:			
At 1 January 2009 and 31 October 2009	884,681	88,469	94,064
At 1 January 2010 and 31 October 2010	884,681	88,469	94,064

14. Share options

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 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; and (iii) the nominal value of the share. A nominal consideration of HK$1 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 31 October 2010, no options had been granted under this Share Option Scheme (31 December 2009: Nil).

15. Other income and other losses, net

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Other income		
Subsidy income (Note (a))	48,289	9,613
Return of income tax relating to re-investment	-	983
	48,289	10,596
Other losses - net		
Derivative financial liability at fair value through profit or loss:		
- Unrealised loss	(313)	(282)
- Realised loss	-	(1,605)
Net foreign exchange losses	(537)	(1,457)
Others	830	1,219
Total other losses - net	(20)	(2,125)

Note:

(a) Subsidy income mainly related to incentives for development in Xuzhou, Mainland China and grants provided by municipal governments based on the amounts of value added tax and income tax the Group paid.

16. Expenses by nature

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Cost of inventories	2,941,198	2,335,050
Employment costs	285,233	250,601
Depreciation and amortisation	118,125	100,022
Transportation	70,186	64,899
Utilities	220,780	185,783

17. Finance income and costs

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	2,346	3,101
Finance costs		
Interest on borrowings wholly repayable within five years	(54,077)	(43,200)
Less: amount capitalised in property, plant and equipment	126	1,631
	(53,951)	(41,569)
Exchange gain on financing activities	14,683	1,504
	(39,268)	(40,065)
Net finance costs	(36,922)	(36,964)

18. Income tax expense

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Current income tax		
- Mainland China enterprise income tax	82,504	18,581
Deferred income tax	6,407	3,050
	88,911	21,631

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the period (2009: Nil).

(ii) Mainland China enterprise income tax

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 22% to 25% during the period (2009: 20% to 25%).

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries established in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

(iii) Vietnam income tax

The subsidiary established in Vietnam is subject to income tax rate of 10% (2009: 10%). As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam is entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction, commencing from the first profitable year after offsetting the losses carried forward from the previous years. The Group's subsidiary in Vietnam is exempted from Vietnam income tax during the period (2009: Nil) as year 2010 is the third profit making year after offsetting prior years' losses.

18. Income tax expense (continued)

(iv) Other income tax

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

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The subsidiary established in Macao is subject to income tax rate of 9% (2009: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the period (2009: Nil).

19. Earning per share

(a) 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.

	Ten months ended 31 October	
	2010	**2009**
Profit attributable to equity holders of the Company (RMB'000)	590,906	189,019
Weighted average number of ordinary shares in issue (thousands)	884,681	884,681
Basic earnings per share (RMB per share)	0.668	0.214

(b) Diluted

Diluted earnings per share is not presented as there were no dilutive ordinary shares.

20. Dividends

A dividend that relates the period to 31 December 2009 and that amounts to RMB58,369,000 was paid in May 2010 (2009: Nil).

In addition, an interim dividend of HKD0.11 per ordinary share (2009: HKD0.035) was approved by the board of directors on 20 August 2010. This interim dividend, amounting to RMB84,938,000 (2009: RMB27,282,000) was paid in September 2010.

21. Commitments

(a) Capital commitments

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

	31 October 2010 RMB'000	**31 December 2009** RMB'000
Property, plant and equipment		
Contracted but not provided for	379,012	225,331

(b) Operating leases commitments

The Group leases various land, offices and warehouses under non-cancellable operating lease agreements.

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

	31 October 2010 RMB'000	**31 December 2009** RMB'000
No later than 1 year	4,136	4,324
Later than 1 year and no later than 5 years	8,158	7,983
Later than 5 years	65,803	73,402
	78,097	85,709
Representing:		
Land use right	74,467	83,303
Property, plant and equipment	3,630	2,406
	78,097	85,709

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 operating decisions. Parties are also considered to be related if they are subject to common control.

The related party that had transactions with the Group is as follows:

Name of related party	**Relationship with the Group**
Nantong Textile Group Co., Ltd.	Associate company

22. Related-party transactions (continued)

The Group had the following significant transactions with its related parties, as follows:

(a) Sales of goods

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Sales of goods		
- Nantong Textile Group Co., Ltd.	187	1,793

(b) Purchases of goods

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Purchases of goods		
- Nantong Textile Group Co., Ltd.	27,750	28,717

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

(c) Balance with related parties

The Group had the following significant balances with related parties:

	31 October 2010	**31 December 2009**
	RMB'000	RMB'000
Prepayments for purchase of raw materials to a related party		
- Nantong Textile Group Co., Ltd.	215	-
Trade payable to a related party		
- Nantong Textile Group Co., Ltd.	247	2,010

(d) Key management compensation

	Ten months ended 31 October	
	2010	**2009**
	RMB'000	RMB'000
Salaries and bonuses	2,068	1,803
Pension cost (defined contribution plan)	23	25
Other benefits	637	834
	2,728	2,662

Independent Auditor's Report
To the shareholders of
Texhong Textile Group Limited
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F-23 to F-82, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2010

Texhong Textile Group Limited

Consolidated balance sheet
As at 31 December 2009
(All amounts in RMB)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Land use rights	6	154,483	116,482
Property, plant and equipment	7	1,435,545	1,467,211
Investment in an associate	9	34,858	34,572
Deferred income tax assets	19	2,601	4,855
		1,627,487	1,623,120
Current assets			
Inventories	10	714,655	690,026
Trade receivables	11	175,146	78,124
Bill receivables	11	260,319	385,989
Prepayments, deposits and other receivables	12	112,193	87,351
Pledged bank deposits	13	15,899	21,570
Cash and cash equivalents	13	392,003	313,012
		1,670,215	1,576,072
Current liabilities			
Trade and bill payables	20	510,602	631,068
Accruals and other payables	21	282,741	226,762
Current income tax liabilities		8,798	8,018
Borrowings	17	707,869	522,607
Derivative financial instruments	18	305	7,915
		1,510,315	1,396,370
Net current assets		159,900	179,702
Total assets less current liabilities		1,787,387	1,802,822
Non-current liabilities			
Borrowings	17	276,585	554,267
Deferred income tax liabilities	19	24,137	20,173
		300,722	574,440
Net assets		1,486,665	1,228,382
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	94,064	94,064
Reserves	16	1,392,601	1,134,318
Total equity		1,486,665	1,228,382

Hong Tianzhu
Director

Zhu Yongxiang
Director

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Balance sheet
As at 31 December 2009

(All amounts in RMB)

	Note	2009	2008
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	7	173	385
Investments in subsidiaries	8	623,967	860,939
		624,140	861,324
Current assets			
Prepayments, deposits and other receivables	12	5	93
Due from subsidiaries	8	643,663	408,326
Cash and cash equivalents	13	1,087	3,568
		644,755	411,987
Current liabilities			
Accruals and other payables	21	85,005	85,448
Due to subsidiaries	8	266,521	128,511
Borrowings	17	262,672	189,234
Derivative financial instruments	18	305	-
		614,503	403,193
Net current assets		30,252	8,794
Total assets less current liabilities		654,392	870,118
Non-current liabilities			
Borrowings	17	170,705	382,377
Net assets		483,687	487,741
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	94,064	94,064
Reserves	16	389,623	393,677
Total equity		483,687	487,741

Hong Tianzhu
Director

Zhu Yongxiang
Director

The accompanying notes are an integral part of this financial statement.

Texhong Textile Group Limited

Consolidated statement of comprehensive income
For the year ended 31 December 2009
(All amounts in RMB)

	Note	2009 RMB'000	2008 RMB'000
Revenue	22	4,088,436	3,737,641
Cost of sales	24	(3,487,176)	(3,278,706)
Gross profit		601,260	458,935
Selling and distribution costs	24	(114,242)	(91,277)
General and administrative expenses	24	(143,891)	(164,204)
Other income	23	20,670	66,156
Other losses - net	23	(1,101)	(4,831)
Operating profit		362,696	264,779
Finance income	26	3,985	3,947
Finance costs	26	(49,136)	(3,392)
Finance (costs)/income - net	26	(45,151)	555
Share of profit/(loss) of an associate	9	286	(16,966)
Profit before income tax		317,831	248,368
Income tax expense	27	(32,266)	(34,175)
Profit for the year		285,565	214,193
Other comprehensive income		-	-
Total comprehensive income for the year, attributable to equity holders of the Company		285,565	214,193
Basic earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	30	0.32	0.24

The accompanying notes are an integral part of these consolidated financial statements.

	Note	2009 RMB'000	2008 RMB'000
Dividends	31	85,651	-

Texhong Textile Group Limited

Consolidated statement of changes in equity
For the year ended 31 December 2009
(All amounts in RMB)

	Note	Attributable to equity holders of the Company		
		Share capital RMB'000	**Reserves (Note 16)** RMB'000	**Total** RMB'000
Balance at 1 January 2008		93,990	981,761	1,075,751
Comprehensive income				
Profit for the year		-	214,193	214,193
Other comprehensive income		-	-	-
Total comprehensive income		-	214,193	214,193
Transactions with owners				
Issue of shares upon exercise of share options	14	74	437	511
Dividend paid		-	(62,073)	(62,073)
Total transactions with owners		74	(61,636)	(61,562)
Balance at 31 December 2008		94,064	1,134,318	1,228,382
Balance at 1 January 2009, as per above		94,064	1,134,318	1,228,382
Comprehensive income				
Profit for the year		-	285,565	285,565
Other comprehensive income		-	-	-
Total comprehensive income		-	285,565	285,565
Transactions with owners				
Dividend paid		-	(27,282)	(27,282)
Balance at 31 December 2009		94,064	1,392,601	1,486,665

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Consolidated cash flow statement
For the year ended 31 December 2009
(All amounts in RMB)

	Note	2009	2008
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	32	389,314	396,178
Interest received		3,985	3,947
Income tax paid		(25,268)	(25,635)
Net cash inflow from operating activities		368,031	374,490
Cash flows from investing activities			
Capital contribution to an associate	9	-	(7,739)
Purchase of property, plant and equipment		(88,408)	(309,727)
Proceeds from disposal of property, plant and equipment and land use rights	32	2,568	25,917
Acquisition of land use rights		(40,546)	(25,818)
Decrease/(Increase) in pledged bank deposits		5,671	(10,797)
Net cash used in investing activities		(120,715)	(328,164)
Cash flows from financing activities			
Proceeds from issuance of shares		-	511
Proceeds from borrowings		796,104	856,809
Repayments of borrowings		(887,048)	(653,133)
Dividends paid		(27,282)	(62,073)
Interest paid		(50,099)	(75,043)
Net cash (outflow)/inflow from financing activities		(168,325)	67,071
Net increase in cash and cash equivalents		78,991	113,397
Cash and cash equivalents at beginning of the year	13	313,012	199,615
Cash and cash equivalents at end of the year	13	392,003	313,012

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Texhong Textile Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and sale of yarn, grey fabrics and garment fabrics.

The Company was incorporated in Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, KY1-1111, Cayman Islands.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited. (the “Stock Exchange”) since 9 December 2004.

These consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company’s Board of Directors on 26 March 2010.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Texhong Textile Group Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(i) New Standards and amendments to Standards that are effective in 2009 and have been adopted by the Group

- HKAS 1 (revised) “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(i) New Standards and amendments to Standards that are effective in 2009 and have been adopted by the Group (continued):

- HKFRS 7 (amendment) "Financial Instruments – Disclosures". The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has applied HKFRS 8 from 1 January 2009 and reportable segments are divided by both product and geographical perspectives, which is consistent with the internal reporting provided to the chief operating decision-maker. Comparatives for 2008 have been restated.

- HKAS 23 (Revised) "Borrowing costs". It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment has no significant impact on the Group's accounting policies as the Group's existing accounting policy on borrowing costs comply with the amended requirements.

- HKFRS 2 (Amendment) "Share based payment" – Vesting conditions and cancellation. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of the revised standard does not have any significant impact on the Group's financial statements.

(ii) Amendments to Standards and interpretations to existing Standards that are effective in 2009 but do not have significant impact to the Group

- HKAS 32 and HKAS 1 (Amendment), "Puttable financial instruments and obligations arising on liquidation"
- HKFRS 1 and HKAS 27 (Amendment), "Cost of an investment in a subsidiary, jointly controlled entity or associate"
- HK(IFRIC)-Int 9 (Amendment), "Reassessment of embedded derivatives" and HKAS 39 (Amendment), "Financial instruments: Recognition and measurement"
- HK(IFRIC)-Int 13, "Customer loyalty programmes"
- HK(IFRIC)-Int 15, "Agreements for the construction of real estate"
- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation"
- HK(IFRIC)-Int 18 - Transfer of assets from customers
- The first annual improvements project to HKFRSs issued in October 2008 by HKICPA, except for amendment to HKFRS 5

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(iii) Amendments to or new Standards that are not effective in 2009 and have not been early adopted by the Group

- HKAS 27 (Revised) "Consolidated and separate financial statements". The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. In this respect, there is no change from the Group's existing accounting policy. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions when control is lost starting from 1 January 2010.

- HKFRS 3 (Revised) "Business combinations". The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquiree at its fair value at the date of control is obtained, recognising a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group will adopt HKFRS 3 (Revised) prospectively to all business combinations starting from 1 January 2010.

- HKFRS 9 "Financial instruments". Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group will adopt HKFRS 9 starting from 1 January 2013.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(iii) Amendments to or new Standards that are not effective in 2009 and have not been early adopted by the Group (continued)

- The Group is in the process of making an assessment of the impact of the following new Standards, amendments to Standards and interpretations to existing Standards upon initial application. It is expected that these new Standards, amendments to Standards and interpretations to existing Standards are unlikely to have a significant impact on the Group's results of operations and financial position.

		Effective for annual periods beginning on or after
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
HKAS 39 (Amendment)	Eligible hedge items	1 July 2009
HKFRS 1 (Amendment)	Presentation of financial statements (additional exemptions for first time adopters)	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction	1 January 2010
HK(IFRIC)-Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC)-Int 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010

(iv) HKICPA's improvements to HKFRS

Amendment to HKFRS 5 as part of the HKICPA's first annual improvements project to HKFRS has been published in October 2008 and HKICPA's second annual improvements project to HKFRS have been published in May 2009. These improvements to HKFRS have introduced certain amendments to those standards set out below. These amendments are not effective in 2009 and have not been early adopted. The Group is assessing the impact of these amendments. The Group will apply these amendments from 1 January 2010.

- HKAS 1 (Amendment) "Presentation of financial statements"
- HKAS 7 "Statement of cash flows"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"
- HKAS 39 "Financial instruments: Recognition and measurement"
- HKFRS 2 "Share-based payment"
- HKFRS 5 "Non-current assets held for sale and discontinued operations"
- HKFRS 8 "Operating segments"
- HK(IFRIC)-Int 9 "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 16 "Hedges of a net investment in a foreign operation"
- HK-Int 4 "Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

2. Summary of significant accounting policies (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.7 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2. Summary of significant accounting policies (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Committee of Executive Directors of the Company that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within 'finance (costs)/income - net'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other losses - net'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to 'retained earnings'.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	15 to 40 years
– Machinery and equipment	6 to 15 years
– Furniture and fixtures	3 to 10 years
– Motor vehicles	5 to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other losses - net' in the consolidated income statement.

When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

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

2. Summary of significant accounting policies (continued)

2.6 Land use rights

The premiums paid to acquire land use rights are recorded as prepayment for operating lease, and are amortised using the straight-line method over the period of the land use rights of 50 years.

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of item being hedged. Derivative instruments held by the Group do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within 'other losses - net'.

2.9 Government grants/subsidies

Grants/subsidies from government authorities are recognised at their fair value where there is a reasonable assurance that the grant/subsidies will be received and the Group will comply with all attached conditions.

Government grants/subsidies relating to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

Government grants/subsidies relating to compensation for relocation are deferred and recognised in the income statements over the period when the relocation takes place.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (continued)

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the consolidated income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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 end of the reporting period.

2. Summary of significant accounting policies (continued)

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of significant accounting policies (continued)

2.17 Employee benefits (continued)

(c) 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, with a corresponding adjustment to equity.

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.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. Summary of significant accounting policies (continued)

2.19 Revenue recognition (continued)

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Subsidy income/government grants

Subsidy income/government grants, representing discretionary subsidies/grants granted by various government authorities, is recognised when received.

(c) Consulting income

Consulting income is recognised when the total amount of revenue and costs arising from the provision of services can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow in and the stage of completion of the services provided can be measured reliably.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement.

2. Summary of significant accounting policies (continued)

2.21 Financial guarantees (continued)

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the company.

2.22 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has used derivative financial instruments to hedge certain of its risk exposures on changes in foreign currency exchange rates and interest rates.

(a) *Foreign exchange risk*

The Group mainly operates in Mainland China and Vietnam. Most of the Group's transactions, assets and liabilities are dominated in RMB or United States dollars ("USD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group is exposed to foreign exchange risk primarily through the bank borrowings that are denominated in a currency other than the functional currency of the Company and its subsidiaries. It manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

At 31 December 2009, if RMB had weakened/strengthened by 0.1% (2008: 6.4%) against USD with all other variable held constant, post-tax profit for the year would have been RMB895,000 (2008: RMB58,316,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated pledged bank deposits, cash and cash equivalents, trade and bill receivables, trade and bill payables and borrowings.

3. Financial risk management

3.1 Financial risk factors

(b) *Cash flow and fair value interest rate risk*

Except for pledged bank deposits and cash at bank (Note 13), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact resulted from changes in interest rates on interest bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2009, approximately 43% (2008: 7%) of the Group's borrowings were at fixed rates and the remaining were at floating rates.

The Group manages certain of its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2009, the Group converted borrowings of RMB30,727,000 (2008: RMB57,411,000) from floating rate to fixed rate through interest rate swap (Note 18).

As at 31 December 2009, if interest rates on USD-denominated borrowings had been 1.04 percentage-points lower/higher with all other variables held constant, post-tax profit for the year would have been RMB5,068,000 (2008: RMB7,650,618) higher/lower, mainly as a result of lower/ higher interest expense on floating rate borrowings.

(c) *Credit risk*

The Group has no significant concentration of credit risk. The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bill receivables and prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group's management performs periodic credit evaluations/reviews of its customers and ensure that sales are made to customers with an appropriate credit history. The Group places deposits with major banks in Mainland China and Hong Kong, and limits the amount of credit exposure to any financial institution.

To lower the Group's exposure to credit risk, the Group may request 5% deposits from certain of their customers before dlivery of goods. In addition, most of the sales in Vietnam are covered by letters of credit issued by banks. As at 31 December 2009, 81% (2008: 82%) of the trade and bill receivables are covered by letters of credit issued by banks.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

(d) *Liquidity risk*

Prudent liquidity risk management includes 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. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 17 to the consolidated financial statements.

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Notes to the consolidated financial statements
For the year ended 31 December 2009
(All amounts in RMB unless otherwise stated)

3. **Financial risk management** (continued)

3.1 **Financial risk factors** (continued)

(d) *Liquidity risk (Continued)*

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	RMB'000	RMB'000	RMB'000
Group			
At 31 December 2009			
Borrowings	707,869	48,715	227,870
Interest payable on borrowings	30,227	14,551	9,385
Derivative financial instruments	305	-	-
Trade and bill payables	510,602	-	-
Other payables	222,951	-	-
	1,471,954	63,266	237,255
At 31 December 2008			
Borrowings	522,607	289,807	264,460
Interest payable on borrowings	33,521	17,423	2,854
Derivative financial instruments	7,915	-	-
Trade and bill payables	631,068	-	-
Other payables	172,237	-	-
	1,367,348	307,230	267,314
Company			
At 31 December 2009			
Borrowings	262,672	-	170,705
Interest payable on borrowings	13,856	11,523	7,586
Derivative financial instruments	305	-	-
Due to subsidiaries	266,521	-	-
Other payables	83,948	-	-
	627,302	11,523	178,291
At 31 December 2008			
Borrowings	189,234	215,077	167,300
Interest payable on borrowings	19,391	10,517	-
Due to subsidiaries	128,511	-	-
Other payables	84,599	-	-
	421,735	225,594	167,300

3. Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as total borrowings less pledged bank deposits and cash and cash equivalents divided by total equity. The Group's strategy is to maintain a net gearing ratio at a level acceptable by management and the relevant banks who granted loans to the Group.

The gearing ratios are as follows:

	2009 RMB'000	**2008** RMB'000
Total borrowings	984,454	1,076,874
Less: pledged bank deposits and cash and cash equivalents (Note 13)	(407,902)	(334,582)
Net debt	576,552	742,292
Total equity	1,486,665	1,228,382
Net gearing ratio	39%	60%

The decrease in gearing ratio during 2009 was a result of the repayment of borrowings, the increase in total equity from 2009's profit and the cash balances generated from operations.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2009, the Group held interest rate swap contract and this derivative financial instrument is classified under level 2. The fair value of interest rate swap contract is calculated as the present value of the estimated future cash flows based on observable yield curves.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever 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. Actual economic lives may differ from estimated useful lives, and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

4. Critical accounting estimates and judgments (continued)

4.3 Impairment of trade, bill and other receivables

The Group's management determines the provision for impairment of trade, bill and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

4.4 Provisions for social funds

The Group's management determines the provison for social funds in Mainland China based on the employee' basic salary (subject to a cap) at rates as stipulated by the relevant municipal governments. The ultimate payable amount might be different from management estimate.

4.5 Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

5. Segmental information

The chief operating decision-maker has been identified as the Committee of Executive Directors of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Committee of Executive Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee of Executive Directors considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance from sales of yarn, grey fabrics and garment fabrics. The operations are further evaluated on a geographic basis including Mainland China, Vietnam and other territories.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

5. Segmental information (continued)

The segment information for the year ended 31 December 2009 is as follows:

	Yarn			Grey fabrics	Garment fabrics	Total
	Mainland China	**Vietnam**	**Other territories**	**Mainland China**	**Mainland China**	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	3,150,612	1,161,548	721,100	770,874	120,053	5,924,187
Inter-segment revenue	(306,949)	(822,293)	(706,509)	-	-	(1,835,751)
Revenue (from external customers)	2,843,663	339,255	14,591	770,874	120,053	4,088,436
Segment results	182,970	159,077	(8,734)	20,469	15,897	369,679
Unallocated expenses						(6,983)
Operating results						362,696
Finance income						3,985
Finance costs						(49,136)
Share of profit of an associate						286
Income tax expense						(32,266)
Profit for the year						285,565
Depreciation and amortisation	(58,960)	(40,876)	(283)	(19,944)	(3,050)	(123,113)

5. **Segmental information** (continued)

The segment information for the year ended 31 December 2008 is as follows:

	Yarn			Grey fabrics	Garment fabrics	Total
	Mainland China	**Vietnam**	**Other territories**	**Mainland China**	**Mainland China**	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	2,741,423	546,293	684,792	909,775	128,895	5,011,178
Inter-segment revenue	(222,315)	(387,308)	(663,914)	-	-	(1,273,537)
Revenue (from external customers)	2,519,108	158,985	20,878	909,775	128,895	3,737,641
Segment results	216,518	33,355	(14,251)	22,484	14,359	272,465
Unallocated expenses						(7,686)
Operating results						264,779
Finance income						3,947
Finance costs						(3,392)
Share of profit of an associate						(16,966)
Income tax expense						(34,175)
Profit for the year						214,193
Depreciation and amortisation	(53,493)	(17,443)	(245)	(21,993)	(3,140)	(96,314)

5. Segmental information (continued)

The segment assets and liabilities as at 31 December 2009 are as follows:

	Yarn				Grey fabrics	Garment fabrics	Total
	Mainland China	**Vietnam**	**Other territories**	**Sub-total**	**Mainland China**	**Mainland China**	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment assets	1,738,945	972,994	35,502	2,747,441	451,783	96,281	3,295,505
Unallocated assets							2,197
Total assets of the Group							3,297,702
Total segment liabilities				(1,238,149)	(111,267)	(14,940)	(1,364,356)
Unallocated liabilities							(446,681)
Total liabilities of the Group							(1,811,037)
Capital expenditure	67,486	57,141	447	125,074	7,765	1,891	134,730

5. Segmental information (continued)

The segment assets and liabilities as at 31 December 2008 are as follows:

	Yarn				Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Other territories	Sub-total	Mainland China	Mainland China	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment assets	1,712,808	827,432	44,818	2,585,058	523,899	84,533	3,193,490
Unallocated assets							5,702
Total assets of the Group							3,199,192
Total segment liabilities				(1,259,911)	(120,454)	(7,850)	(1,388,215)
Unallocated liabilities							(582,595)
Total liabilities of the Group							(1,970,810)
Capital expenditure	103,259	303,389	19	406,667	8,562	724	415,953

6. Land use rights - Group

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2009 RMB'000	**2008** RMB'000
Leases of between 10 to 50 years		
- In Mainland China	134,029	95,672
- In Vietnam	20,454	20,810
	154,483	116,482

As at 31 December 2009, land use rights with a net book amount of RMB10,897,000 (2008: Nil) was pledged as collateral of the Group's bank borrowings (Note 17).

	2009 RMB'000	**2008** RMB'000
Opening amount	116,482	104,622
Additions	40,546	25,818
Disposals	-	(12,175)
Amortisation	(2,545)	(1,783)
Closing amount	154,483	116,482
Cost	162,461	121,915
Accumulated amortisation	(7,978)	(5,433)
Net book amount	154,483	116,482

Amortisation was included in cost of sales.

As at 31 December 2009, land use rights of RMB10,082,000 (2008: RMB10,082,000) consisted of cost of RMB59,269,000 (2008: RMB59,269,000), less related government grant of RMB49,187,000 (2008: RMB49,187,000) which was deducted from the acquisition cost. The accumulated amortisation of these land use rights was RMB1,268,000 as at 31 December 2009 (2008: RMB1,067,000).

7. Property, plant and equipment – Group and Company

Group

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Con-struction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008						
Cost or valuation	315,421	888,054	11,749	11,409	184,779	1,411,412
Accumulated depreciation	(23,628)	(191,406)	(5,070)	(3,765)	-	(223,869)
Net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
Year ended 31 December 2008						
Opening net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
Additions	8,148	2,552	3,442	209	375,784	390,135
Transfer	78,818	53,073	-	-	(131,891)	-
Disposals	(5,223)	(10,013)	(258)	(442)	-	(15,936)
Depreciation	(14,175)	(76,362)	(2,210)	(1,784)	-	(94,531)
Closing net book amount	359,361	665,898	7,653	5,627	428,672	1,467,211
At 31 December 2008						
Cost or valuation	395,380	932,108	14,852	10,666	428,672	1,781,678
Accumulated depreciation	(36,019)	(266,210)	(7,199)	(5,039)	-	(314,467)
Net book amount	359,361	665,898	7,653	5,627	428,672	1,467,211
Year ended 31 December 2009						
Opening net book amount	359,361	665,898	7,653	5,627	428,672	1,467,211
Additions	7,146	2,575	1,410	2,167	80,886	94,184
Transfer	102,608	336,621	-	-	(439,229)	-
Disposals	(512)	(4,586)	(20)	(164)	-	(5,282)
Depreciation	(17,417)	(98,386)	(2,471)	(2,294)	-	(120,568)
Closing net book amount	451,186	902,122	6,572	5,336	70,329	1,435,545
At 31 December 2009						
Cost or valuation	504,559	1,258,722	16,102	11,968	70,329	1,861,680
Accumulated depreciation	(53,373)	(356,600)	(9,530)	(6,632)	-	(426,135)
Net book amount	451,186	902,122	6,572	5,336	70,329	1,435,545

7. Property, plant and equipment – Group and Company (continued)

The Group's interests in buildings at their net book values are analysed as follows:

	2009 RMB'000	2008 RMB'000
Buildings in Mainland China, located on leases of between 10 to 50 years	313,958	310,438
Buildings in Vietnam, located on leases of between 10 to 50 years	137,228	48,923
	451,186	359,361

Buildings with net book amount of RMB257,236,000 (2008: RMB273,284,000) were stated at open market value at 31 December 2007, based on a valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The revaluation surplus, net of applicable deferred income tax liabilities, was credited to revaluation reserve in equity (Note 16).

During the year ended 31 December 2009, depreciation of RMB109,869,000 (2008: RMB83,925,000) was included in cost of sales, RMB93,000 (2008: RMB88,000) was included in selling and distribution costs and RMB10,606,000 (2008: RMB10,518,000) was included in general and administrative expenses.

During the year ended 31 December 2009, finance cost of RMB1,631,000 (2008: RMB6,275,000) was capitalised as part of property, plant and equipment at a rate of 6.1% (2008: 6.1%) per annum (Note 26).

As at 31 December 2009, property, plant and equipment of approximately RMB435,021,000 (2008: RMB311,700,000) were pledged as collateral of the Group's bank borrowings (Note 17).

If buildings were stated on historical cost basis, the amounts would be as follows:

	2009 RMB'000	2008 RMB'000
Cost	443,767	334,588
Accumulated depreciation	(38,266)	(26,255)
Net book amount	405,501	308,333

The analysis of the cost or valuation of the above assets is as follows:

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009						
At cost	196,720	1,258,722	16,102	11,968	70,329	1,553,841
At valuation – 31 December 2007	307,839					307,839
	504,559	1,258,722	16,102	11,968	70,329	1,861,680
At 31 December 2008						
At cost	86,966	932,108	14,852	10,666	428,672	1,473,264
At valuation – 31 December 2007	308,414	-	-	-	-	308,414
	395,380	932,108	14,852	10,666	428,672	1,781,678

Lease rental expense of RMB11,903,000 (2008: RMB12,751,000), relating to the lease of buildings and machinery, was included in cost of sales (Note 24).

7. Property, plant and equipment – Group and Company (continued)

Company	Furniture and fixtures RMB'000
At 1 January 2008	
Cost	1,149
Accumulated depreciation	(599)
Net book amount	550
Year ended 31 December 2008	
Opening net book amount	550
Depreciation	(165)
Net book amount	385
At 31 December 2008	
Cost	1,149
Accumulated depreciation	(764)
Net book amount	385
Year ended 31 December 2009	
Opening net book amount	385
Depreciation	(212)
Net book amount	173
At 31 December 2009	
Cost	1,149
Accumulated depreciation	(976)
Net book amount	173

8. Investments in and amounts due from/to subsidiaries - Company

	Company	
	2009 RMB'000	**2008** RMB'000
Unlisted shares, at cost	246,989	246,989
Due from subsidiaries – non-current portion (Note(a))	376,978	613,950
	623,967	860,939
Due from subsidiaries - current portion (Note(b))	643,663	408,326
Due to subsidiaries (Note(b))	266,521	128,511

Notes:

(a) These amounts due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

(b) These amounts due from/to subsidiaries are unsecured, non-interest bearing and are repayable within one year.

Particulars of the principal subsidiaries of the Company are set out in Note 35.

9. Investment in an associate – Group

	2009 RMB'000	**2008** RMB'000
Share of net assets of unlisted associate (Note (a))	34,667	34,381
Goodwill (Note (b))	191	191
	34,858	34,572

(a) Movement of share of net asset attributable to the Group:

	2009 RMB'000	**2008** RMB'000
Opening amount	34,381	43,608
Capital contribution	-	7,739
Share of profit/(loss)	286	(16,966)
Closing amount	34,667	34,381

(b) Goodwill

Goodwill is attributable to Nantong Textile Group Co., Ltd., which is considered to be a single cash-generating unit ("CGU"). The recoverable amount of goodwill is determined based on the value-in-use calculation, using cash flow projections based on a three-year financial budget approved by management. The financial budget is determined according to past performance and management's expectation for the market development. The pre-tax discount rate used in the value-in-use calculation is approximately 10% per annum, which reflects specific risks relating to Nantong Textile Group Co., Ltd..

9. Investment in an associate – Group (continued)

(c) Particulars of the associate, which is unlisted, are as follows:

Name	Place and date of incorporation and form of legal entity	Principal activities	Paticulars of issued share capital	Interest
			RMB'000	
Nantong Textile Group Co., Ltd.	Nantong, Mainland China 11 September 2002 limited liability company	Manufacturing and sales of top-grade textile knitting products and garments	116,375	37%

(d) The Group's share of revenue, profit/(loss) for the year, assets and liabilities of the associate, which have been included in the consolidated income statement and balance sheet using equity method, are as follows:

	2009 RMB'000	2008 RMB'000
Revenue	87,726	155,993
Profit/(Loss) for the year	286	(16,966)
Non-current assets	101,166	105,799
Current assets	32,163	36,663
Current liabilities	(63,367)	(56,042)
Non-current liabilities	(35,295)	(52,039)
	34,667	34,381

10. Inventories - Group

	2009 RMB'000	2008 RMB'000
Raw materials	451,541	397,946
Work-in-progress	48,632	47,070
Finished goods	214,482	245,010
	714,655	690,026

The cost of inventories recognised as expense and included in cost of sales amounted to RMB3,496,569,000 (2008: 3,271,863,000).

In 2009, the Group reversed an inventory obsolescence provision of RMB9,393,000 (2008: additional provision of RMB6,843,000) (Note 24). This amount has been included in cost of sales.

As at 31 December 2008, there were floating charges over certain of the Group's inventories of RMB47,752,000 to secure certain of the Group's bank borrowings (Note 17).

11. Trade and bill receivables - Group

	2009 RMB'000	**2008** RMB'000
Trade receivables	178,082	85,354
Less: provision for impairment	(2,936)	(7,230)
	175,146	78,124
Bill receivables	260,319	385,989
	435,465	464,113

The fair values of trade and bill receivables approximate their carrying amounts.

As at 31 December 2009, bill receivables of approximately RMB4,100,000 (2008: RMB81,821,000) was pledged as collateral for issuance of letter of credits.

The Group generally grants credit terms of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries. The ageing analysis of the trade and bill receivables by invoice date is as follows:

	2009 RMB'000	**2008** RMB'000
0 to 30 days	229,247	281,255
31 to 90 days	119,999	107,647
91 to 180 days	85,516	75,692
181 days to 1 year	1,027	1,551
Over 1 year	2,612	5,198
	438,401	471,343
Less: provision for impairment	(2,936)	(7,230)
Trade and bill receivables – net	435,465	464,113

11. Trade and bill receivables - Group (continued)

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

Trade receivables that are less than 90 days in Mainland China and 120 days in other countries are generally not considered impaired, which amounted to RMB174,639,000 as at 31 December 2009 (2008: RMB78,035,000). As at 31 December 2009, trade receivables aged by more than 90 days in Mainland China or 120 days of RMB507,000 (2008: RMB89,000) in other countries are considered not to be impaired. These relate to a number of customers for whom there is no recent history of default. All these trade receivables are aged within 91 days to 180 days.

As at 31 December 2009, trade receivables of RMB2,936,000 (2008: RMB7,230,000) were impaired and had been fully provided for. These receivables relate to a number of customers, including customers in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2009 RMB'000	**2008** RMB'000
91 to 180 days	197	1,381
181 days to 1 year	127	651
Over 1 year	2,612	5,198
	2,936	7,230

Trade and bill receivables are denominated in the following currencies:

	2009 RMB'000	**2008** RMB'000
RMB	317,041	458,960
United States dollars	121,360	12,383
	438,401	471,343

Movements of the provision for impairment of trade receivables are as follows:

	2009 RMB'000	**2008** RMB'000
At 1 January	7,230	4,618
Provision reversed when the related receivables were collected	(4,294)	(356)
Provision for receivable impairment	-	2,968
At 31 December	2,936	7,230

11. Trade and bill receivables - Group (continued)

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of receiving additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of trade and bill receivables.

12. Prepayments, deposits and other receivables – Group and Company

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for purchase of raw materials	93,144	69,418	-	-
Deposit for acquisition of land use right	-	11,000	-	-
Staff advances	870	752	5	93
Value-added tax recoverable	13,748	169	-	-
Prepaid expenses	165	645	-	-
Deposits	2,995	1,062	-	-
Other receivables	1,271	4,305	-	-
	112,193	87,351	5	93

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

As at 31 December 2008, included in prepayments for purchase of raw materials were amount due from an associate of RMB4,122,000 (Note 34).

13. Pledged bank deposits and cash and cash equivalents – Group and Company

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	15,899	21,570	-	-
Cash at bank and in hand	392,003	313,012	1,087	3,568
	407,902	334,582	1,087	3,568

As at 31 December 2009, the weighted average effective interest rate on pledged bank deposits and other deposits was 0.4% (2008: 0.4%) per annum. The pledged bank deposits have maturities of 75 days at inception (2008: 75 days).

13. Pledged bank deposits and cash and cash equivalents – Group and Company (continued)

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	279,086	261,794	-	-
United States dollars	122,470	70,413	930	3,330
Hong Kong dollars	2,346	1,054	157	238
Vietnam Dong	3,957	1,196	-	-
Others	43	125	-	-
	407,902	334,582	1,087	3,568

Majority of the cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange controls promulgated by the Mainland China Government.

14. Share capital – Group and Company

	Ordinary shares of HK$0.1 each		
	Number of shares '000	HK$'000	RMB'000
Authorised:			
At 31 December 2008 and 2009	4,000,000	400,000	
Issued and fully paid:			
At 1 January 2008	883,855	88,386	93,990
Issue of shares upon exercise of share options under Pre-IPO Share Option Scheme	826	83	74
At 31 December 2008	884,681	88,469	94,064
At 1 January 2009 and 31 December 2009	884,681	88,469	94,064

15. Share options – Group and Company

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 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; and (iii) the nominal value of the share. A nominal consideration of HK$1 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 31 December 2009, no options had been granted under this Share Option Scheme (2008: Nil).

16. Reserves – Group and Company

	Group						
	Share premium RMB'000	Capital reserve(i) RMB'000	Statutory reserves(ii) RMB'000	Revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	188,781	162,041	111,171	34,254	(7,688)	493,202	981,761
Issue of shares upon exercise of share options	437	-	-	-	-	-	437
Transfer to statutory reserves	-	-	23,377	-	-	(23,377)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,662)	-	2,662	-
- deferred income tax (Note 19)	-	-	-	723	-	(723)	-
	189,218	162,041	134,548	32,315	(7,688)	471,764	982,198
Profit for the year	-	-	-	-	-	214,193	214,193
Dividend paid	-	-	-	-	-	(62,073)	(62,073)
Balance at 31 December 2008	189,218	162,041	134,548	32,315	(7,688)	623,884	1,134,318
At 1 January 2009	189,218	162,041	134,548	32,315	(7,688)	623,884	1,134,318
Transfer to statutory reserves	-	-	21,155	-	-	(21,155)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,662)	-	2,662	-
- deferred income tax (Note 19)	-	-	-	787	-	(787)	-
	189,218	162,041	155,703	30,440	(7,688)	604,604	1,134,318
Profit for the year	-	-	-	-	-	285,565	285,565
Dividend paid	-	-	-	-	-	(27,282)	(27,282)
At 31 December 2009	189,218	162,041	155,703	30,440	(7,688)	862,887	1,392,601

16. Reserves – Group and Company (continued)

	Company			
	Share premium RMB'000	Capital reserve(i) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	188,781	172,319	87,723	448,823
Issue of shares upon exercise of share options	437	-	-	437
Profit for the year	-	-	6,490	6,490
Dividend paid	-	-	(62,073)	(62,073)
At 31 December 2008	189,218	172,319	32,140	393,677
At 1 January 2009	189,218	172,319	32,140	393,677
Profit for the year	-	-	23,228	23,228
Dividend paid	-	-	(27,282)	(27,282)
At 31 December 2009	189,218	172,319	28,086	389,623

Notes:

(i) Capital reserve represents the difference between the amount of share capital issued and the net asset value of the subsidiaries acquired under a Group reorganisation in 2004.

(ii) As stipulated by regulations in Mainland China, the Company's subsidiaries established and operated in Mainland China are required to appropriate a portion of their after-tax profit (after offsetting prior years' losses) to statutory reserves, at rates determined by their respective boards of directors. Such transfer is not required when the amount of the statutory reserve reaches 50% of the corresponding subsidiaries' registered capital.

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

17. Borrowings – Group and Company

	Group		Company	
	2009 RMB'000	**2008** RMB'000	**2009** RMB'000	**2008** RMB'000
Current				
Secured bank borrowings (Note (a))	75,099	88,460	-	-
Other bank borrowings (Note (b))	370,098	244,913	-	-
Unsecured bank borrowings (Note (c))	262,672	189,234	262,672	189,234
	707,869	522,607	262,672	189,234
Non-current				
Secured bank borrowings (Note (a))	97,603	113,050	-	-
Other bank borrowings (Note (b))	8,277	58,840	-	-
Unsecured bank borrowings (Note (c))	-	215,077	-	215,077
Notes payable (Note (d))	170,705	167,300	170,705	167,300
	276,585	554,267	170,705	382,377
Total borrowings	984,454	1,076,874	433,377	571,611

Notes:

(a) Bank borrowings of RMB172,702,000 (2008: RMB201,510,000) were secured by the followings:

(i) pledge of the Group's property, plant and equipment with a net book amount of approximately RMB435,021,000 as at 31 December 2009 (2008: RMB311,700,000) (Note 7);

(ii) pledge of the Group's land use rights with a net book amount of RMB10,897,000 (2008: nil) (Note 6); and

(iii) floating charges over the Group's inventories with a net book amount of nil as at 31 December 2009 (2008:RMB47,752,000) (Note 10);

(b) Other bank borrowings were secured by cross corporate guarantees provided by certain subsidiaries totalling of RMB378,375,000 as at 31 December 2009 (2008: RMB303,753,000).

(c) Mr. Hong Tianzhu, chairman and an executive director, has undertaken to maintain at least 30% equity interest in the Company unless otherwise agreed by the relevant bank in respect of the provision of unsecured non-current bank borrowings.

(d) As at 31 December 2009, notes payable represents US$25 million (2008: US$25 million) guaranteed notes, maturing in 2012. The notes payable bear interest (i) at fixed rate of 6.8% per annum from July 2007 to June 2008, (ii) at various rates based a formula making reference to Deutsche Bank Municipal Forward Rate Bias Index from July 2008 to June 2009, and (iii) at fixed rate of 6.8% per annum from July 2009.

17. Borrowings – Group and Company (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2009 RMB'000	**2008** RMB'000	**2009** RMB'000	**2008** RMB'000
RMB	347,500	226,000	-	-
United States dollars	621,151	850,874	433,377	571,611
Hong Kong dollars	10,390	-	-	-
Vietnam Dong	5,413	-	-	-
	984,454	1,076,874	433,377	571,611

The weighted average effective interest rates per annum at year end are as follows:

	2009				2008	
	USD	RMB	HKD	VND	USD	RMB
Bank borrowings	3.1%	5.2%	1.5%	6.5%	5.5%	6.6%
Notes payable	6.8%	-	-	-	3.8%	-

At 31 December 2009, the Group's borrowings were repayable as follows:

	Group		Company	
	2009 RMB'000	**2008** RMB'000	**2009** RMB'000	**2008** RMB'000
Within 1 year	707,869	522,607	262,672	189,234
Between 1 and 2 years	48,715	289,807	-	215,077
Between 2 and 5 years	227,870	264,460	170,705	167,300
	984,454	1,076,874	433,377	571,611

The fair values of current borrowings approximately their carrying amounts, as the impact of discounting is not significant.

As at 31 December 2009, the fair values of the non-current borrowings and notes payable approximate its carrying amounts and the fair values were determined based on estimated cash flows discounted using the effective interest rates of 4.6% (2008: 5.5%) and 6.8% (2008:3.8%), respectively.

In respect of the Group's borrowings totalling of RMB433,377,000 (2008: RMB571,611,000), the Group has to comply with certain restrictive financial covenants, including, among others the following:

(i) maintain a multiple of consolidated earnings before income tax (EBIT), as defined by banks, to consolidated interest expense of at least 2 times (2008: 4 times);
(ii) maintain total equity of more than RMB1,000,000,000 (2008: RMB1,000,000,000);
(iii) maintain total borrowings of less than 4 times (2008: 3 times) of earnings before income tax, depreciation and amortisation (EBITDA), as defined by banks, and such total borrowings have to be less than the total equity;
(iv) maintain free cash balance of at least RMB200,000,000 (2008: N/A); and
(v) maintain total borrowings of less than RMB1,150,000,000 (2008:N/A).

17. Borrowings – Group and Company (continued)

In addition, certain subsidiaries of the Group have to comply with restrictive financial covenants based on the financial position and operating results of the subsidiaries.

The Group has undrawn floating rates borrowing facilities of approximately RMB172,036,000 (2008: 20,000,000) which will be expired within one year. The facilities expiring within one year are annual facilities subject to review at various dates during 2010.

18. Derivative financial instruments - Group

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000
Interest rate swap contract (Note (a))	305	-	305	-
Interest rate swap and forward foreign exchange contract (Note (b))	-	7,915	-	-
	305	7,915	305	-

Non-hedging derivatives are classified as a current asset or liability.

(a) The notional principal amount of the outstanding interest rate swap contract at 31 December 2009 was RMB30,727,000 (2008: nil).

At 31 December 2009, the fixed interest rate was 1.86% (2008: nil) and the floating rate was with reference to London InterBank Offered Rate ("LIBOR").

(b) The notional principal amounts of the outstanding interest rate swap and forward foreign exchange contracts at 31 December 2009 were nil (2008: RMB57,411,000).

At 31 December 2008, the fixed interest rate was 3.98% and the forward USD/RMB exchange rate was 7.917, and the floating rate was with reference to LIBOR.

19. Deferred income tax - Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liablities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2009 RMB'000	**2008** RMB'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	52	146
- Deferred tax assets to be recovered within 12 months	2,549	4,709
	2,601	4,855
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(16,349)	(9,568)
- Deferred tax liabilities to be recovered within 12 months	(7,788)	(10,605)
	(24,137)	(20,173)

19. Deferred income tax - Group (continued)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred income tax assets:

	Tax losses RMB'000	Temporary differences in respect of provisions and accruals RMB'000	Total RMB'000
At 1 January 2008	670	2,937	3,607
(Charge)/Credit to the consolidated income statement	(131)	1,379	1,248
At 31 December 2008 and 1 January 2009	539	4,316	4,855
Charge to the consolidated income statement	(490)	(1,764)	(2,254)
At 31 December 2009	49	2,552	2,601

Deferred income tax liabilities:

	Revaluation of buildings RMB'000	Withholding tax relating to unremitted earings of subsidiaries RMB'000	Total RMB'000
At 1 January 2008	11,078	-	11,078
Reversal relating to additional depreciation	(723)	-	(723)
Withholding tax relating to unremitted earings of subsidiaries	-	9,818	9,818
At 31 December 2008 and 1 January 2009	10,355	9,818	20,173
Reversal relating to additional depreciation	(787)	-	(787)
Withholding tax relating to unremitted earings of subsidiaries	-	4,751	4,751
At 31 December 2009	9,568	14,569	24,137

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2009, the Group did not recognise deferred income tax assets of RMB71,000 (2008: nil) in respect of losses amounting to RMB282,000 (2008: nil) that can be carried forward against future taxable income.

Deferred income tax of RMB787,000 (2008: RMB723,000) was transferred from other reserves (Note 16) to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

20. Trade and bill payables - Group

	2009 RMB'000	**2008** RMB'000
Trade payables	479,972	537,927
Bill payables	30,630	93,141
	510,602	631,068

As at 31 December 2009, included in the trade payables was amount due to an associate of RMB2,010,000 (2008: RMB8,161,000) (Note 34).

The ageing analysis of the trade and bill payables (including amount due to a an associate of trading in nature) is as follows:

	2009 RMB'000	**2008** RMB'000
0 to 90 days	326,513	205,966
91 to 180 days	180,288	211,575
181 days to 1 year	1,324	208,952
Over 1 year	2,477	4,575
	510,602	631,068

Trade and bill payables are denominated in the following currencies:

	2009 RMB'000	**2008** RMB'000
RMB	171,170	232,458
United States dollars	330,700	389,026
Vietnam Dong	8,732	9,584
	510,602	631,068

The fair values of trade and bill payables approximately their carrying amounts.

21. Accruals and other payables - Group and Company

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued wages and salaries	40,371	34,263	26	-
Interest payable	6,591	4,447	6,157	3,867
Accrual of operating expenses	19,419	20,262	1,031	849
Deposits from customers	45,655	34,352	-	-
Other deposits	2,913	3,951	-	-
Payables for purchase of property, plant and equipment	104,653	100,508	77,791	80,732
Other payables	54,317	21,513	-	-
Tax payables other than Mainland China enterprise income tax	8,822	7,466	-	-
	282,741	226,762	85,005	85,448

22. Revenue

The Group is principally engaged in the manufacturing and sale of yarn, grey fabrics and garment fabrics. Revenue/Turnover recognised represented sales of goods, net of value-added tax.

23. Other income and other losses, net

	2009	**2008**
	RMB'000	RMB'000
Other income		
Subsidy income (Note)	15,077	33,149
Government grants relating to the relocation of a subsidiary	2,624	18,370
Consulting income	-	11,691
Re-investment incentives based on income tax paid	983	2,946
Compensation from insurance company	1,986	-
Total other income	20,670	66,156
Other losses - net		
Derivative financial liability at fair value through profit or loss:		
- Unrealised loss	(305)	(7,915)
- Realised loss	(1,605)	(6,991)
Net foreign exchange (losses)/gains (Note 28)	(1,481)	5,001
Others	2,290	5,074
Total other losses - net	(1,101)	(4,831)

Note:

Subsidy income mainly related to incentives for development in Xuzhou, Mainland China and grants provided by municipal governments based on the amounts of value added tax and income tax paid.

24. Expenses by nature

	2009 RMB'000	**2008** RMB'000
Changes in inventories of finished goods and work in progress	28,966	(59,399)
Raw materials and consumables used	2,877,017	2,823,298
Employment costs (Note 25)	313,160	302,138
Depreciation and amortisation (Notes 6 and 7)	123,113	96,314
Loss on disposal of property, plant and equipment and land use rights	2,714	2,194
Office expense	20,239	20,731
Utilities	226,147	193,437
Transportation	90,114	67,387
Auditor's remuneration	4,097	3,586
Lease rental expense of buildings and machinery	11,903	12,751
(Reversal of)/Provision for impairment of trade receivables (Note 11)	(4,294)	2,612
(Reversal of)/Provison for inventory obsolescence (Note 10)	(9,393)	6,843
Other expenses	61,526	62,295
Total cost of sales, selling and distribution costs and general and administrative expenses	3,745,309	3,534,187

25. Employment costs

	2009 RMB'000	**2008** RMB'000
Wages, salaries and bonuses	277,209	267,853
Pension costs – defined contribution plans (Note (a))	19,957	17,156
Other welfare benefits (Note (b))	10,249	8,134
Other employment benefits	5,745	8,995
	313,160	302,138

Notes:

(a) Pension – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in Mainland China. The Group and the eligible employees are required to contribute 12% to 22% and 7% to 8%, respectively, of the employees' basic salary (subject to a cap) at rates as stipulated by the relevant municipal governments. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. During the year ended 31 December 2009, the Group contributed approximately RMB19,881,000 (2008: RMB17,080,000) to the aforesaid state-sponsored retirement plans.

25. Employment costs (continued)

Notes:

(a) Pension – defined contribution plans (continued)

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident fund legislation, and both the Group and the employees' contributions are subject to a cap of HK$1,000 per month. During the year ended 31 December 2009, the Group contributed approximately RMB76,000 (2008: RMB76,000) to the MPF Scheme.

(b) Other welfare benefits

All of the Group's employees in Mainland China and Vietnam participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by governmental authorities. During the year ended 31 December 2009, the Group contributed approximately RMB10,249,000 (2008: RMB8,134,000) to these plans.

(c) Directors' and senior management's emoluments

The remuneration of each director of the Company for the year ended 31 December 2009 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Dis-cretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	-	-	983	18	1,001
Zhu Yongxiang	-	591	2,154	12	18	2,775
Gong Zhao	-	277	436	12	18	743
Tang Daoping	-	296	1,608	12	18	1,934
Independent non-executive directors						
Ting Leung Huel, Stephen	170	-	-	-	-	170
Cheng Longdi	73	-	-	-	-	73
Zhu Lanfen	73	-	-	-	-	73
	316	1,164	4,198	1,019	72	6,769

25. Employment costs (continued)

(c) Directors' and senior management's emoluments (continued)

The remuneration of each director of the Company for the year ended 31 December 2008 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Dis-cretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	-	-	906	18	924
Zhu Yongxiang	-	720	640	12	18	1,390
Gong Zhao	-	382	320	12	18	732
Tang Daoping	-	360	720	12	18	1,110
Independent non-executive directors						
Ting Leung Huel, Stephen	170	-	-	-	-	170
Cheng Longdi	73	-	-	-	-	73
Zhu Lanfen	73	-	-	-	-	73
	316	1,462	1,680	942	72	4,472

Note:

(i) Other benefits represent housing allowance and other social security benefits. Those social security benefits mainly include medical and unemployment insurances and are organised and administered by governmental authorities in Mainland China.

None of the directors waived any emoluments during the year ended 31 December 2009 (2008: Nil).

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2008: one) individual is as follows:

	2009 RMB'000	**2008** RMB'000
Basic salaries and allowances	161	505
Bonuses	545	42
Pension cost – Defined contribution plan	11	11
	717	558

(e) During the year ended 31 December 2009, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

26. Finance income and costs

	2009 RMB'000	**2008** RMB'000
Interest expense - bank borrowings wholly repayable within five years	52,243	64,306
Less: amount capitalised in property, plant and equipment (Note 7)	(1,631)	(6,275)
	50,612	58,031
Exchange gain on financing activities (Note 28)	(1,476)	(54,639)
Finance costs	49,136	3,392
Finance income – interest income on bank deposits	(3,985)	(3,947)
Net finance costs/(income) - net	45,151	(555)

27. Income tax expense

The amount of income tax charged to the consolidation income statement represents:

	2009 RMB'000	**2008** RMB'000
Mainland China enterprise income tax		
- Current	26,210	27,823
- Overprovision in prior years	(162)	(1,495)
Deferred income tax (Note 19)	6,218	7,847
	32,266	34,175

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2008: Nil).

(ii) Mainland China enterprise income tax ("EIT")

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 20% to 25% during the year (2008: 18% to 25%).

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries established in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

27. Income tax expense (continued)

(iii) Vietnam income tax

The subsidiary established in Vietnam is subject to income tax rate of 10% (2008: 10%). As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam is entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction, commencing from the first profitable year after offsetting the losses carried forward from the previous years. The Group is exempted from Vietnam income tax during the year (2008: nil) as year 2008 is the first profit making year after offsetting prior years' losses.

(iv) Other income tax

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

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The subsidiary established in Macao is subject to income tax rate of 9% (2008: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the year (2008:Nil).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	2009 RMB'000	**2008** RMB'000
Profit before income tax, after excluding share of profit/(loss) of an associate	317,545	265,334
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	62,835	68,840
Effect of tax exemption/reduction	(30,996)	(34,944)
Expenses not deductible for tax purposes	518	2,091
Tax losses for which no deferred income tax asset was recognised	71	-
Utilisation of previously unrecognised tax losses	-	(317)
Overprovision in prior years	(162)	(1,495)
	32,266	34,175

The weighted average applicable tax rate was 20% (2008: 26%). The decrease in tax rate was due to the increase of profit from Vietnam, which is subject to a lower income tax rate.

During the year ended 31 December 2009, the Group has shared the income tax of its associate company with the amount of nil (2008: Nil).

28. Net foreign exchange (losses)/gains

The exchange differences (charged)/credited to the consolidated income statement are included as follows:

	2009 RMB'000	2008 RMB'000
Other losses - net (Note 23)	(1,481)	5,001
Finance costs (Note 26)	1,476	54,639
	(5)	59,640

29. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB23,228,000 (2008: RMB6,490,000).

30. Earning per share

(a) 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 year.

	2009	2008
Profit attributable to equity holders of the Company (RMB'000)	285,565	214,193
Weighted average number of ordinary shares in issue (thousands)	884,681	884,425
Basic earnings per share (RMB per share)	0.32	0.24

(b) Diluted
Diluted earnings per share is not presented as there were no dilutive ordinary shares.

31. Dividends

A final dividend in respect of the year ended 31 December 2009 of HKD0.075 per share, amounting to HKD66,351,000 (equivalent about RMB58,369,000), is to be proposal for shareholders' approval at the upcoming Annual General Meeting. The dividend payable has not been included in the consolidated financial statements.

	2009 RMB'000	2008 RMB'000
Interim dividend paid of HKD0.035 (2008:nill) per ordinary share	27,282	-
Proposed final dividend of HKD0.075 (2008: nil) per ordinary share	58,369	-
	85,651	-

32. Cash generated from operations

	2009 RMB'000	**2008** RMB'000
Profit before income tax	317,831	248,368
Adjustments for:		
– Amortisation	2,545	1,783
– Depreciation	120,568	94,531
– Share of (profit)/loss from an associate	(286)	16,966
– Loss on disposal of property, plant and equipment and land use rights (note)	2,714	2,194
– Finance (income)/costs – net	45,151	(555)
– Fair value loss on derivative financial instruments	305	7,915
– Realised fair value change on financial instruments	(7,915)	-
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Inventories	(24,629)	(38,127)
– Trade and bill receivables	28,648	(99,281)
– Prepayments, deposits and other receivables	(24,842)	(8,911)
– Trade and bill payables	(120,466)	163,566
– Accruals and other payables	49,690	7,729
Cash generated from operations	389,314	396,178

Note:

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment and land use rights comprise:

	2009 RMB'000	**2008** RMB'000
Net book amount (Notes 6 and 7)	5,282	28,111
Loss on disposal of property, plant and equipment and land use rights	(2,714)	(2,194)
Proceeds from disposal of property, plant and equipment and land use rights	2,568	25,917

33. Commitments

(a) Capital commitments

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

	2009 RMB'000	2008 RMB'000
Property, plant and equipment		
Contracted but not provided for	225,331	22,804
Land use rights		
Authorised but not contracted for	-	20,000
Total capital commitments	225,331	42,804

(b) Lease commitments

The Group leases various land, offices and warehouses under non-cancellable operating lease agreements.

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

	2009 RMB'000	2008 RMB'000
No later than 1 year	4,324	4,995
Later than 1 year and no later than 5 years	7,983	8,858
Later than 5 years	73,402	75,276
	85,709	89,129
Representing:		
Land use right	83,303	85,708
Property, plant and equipment	2,406	3,421
	85,709	89,129

34. Related-party transactions

Parties are considered to be relatd 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 operating decisions. Parties are also considered to be related if they are subject to common control.

New Green Group Limited (incorporated in the British Virgin Islands) owns 44.7% of the Company's shares. Hong Tianzhu, director of the Company, is the principal shareholder of New Green Group Limited. Hong Tianzhu has a beneficial shareholding of 54.6% in the Company through New Green Group Limited, his own capacity, and other investment hoding companies. Mr. Zhu Yongxiang, director of the Company, has a beneficial shareholding of 17.6% in the Company through some investment holding companies.

The related party that had trasactions with the Group is as follows:

Name of related party	**Relationship with the Group**
Nantong Textile Group Co., Ltd.	Associate company

The Group had the following significant transactions with its related party, as follows:

(a) Sales of goods

	2009	**2008**
	RMB'000	RMB'000
Sales of goods:		
- Nantong Textile Group Co., Ltd.	1,834	12,582

34. Related-party transactions (continued)

(b) Purchases of goods

	2009 RMB'000	2008 RMB'000
Purchases of goods		
- Nantong Textile Group Co., Ltd.	33,092	14,099

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

(c) Balance with related parties

The Group had the following significant balances with related party:

	2009 RMB'000	2008 RMB'000
Prepayments for purchase of raw materials to a related party (Note 12)		
- Nantong Textile Group Co., Ltd.	-	4,122
Trade payable to a related party (Note 20)		
- Nantong Textile Group Co., Ltd.	2,010	8,161

The balances with related parties are unsecured, non-interest bearing and are repayable within one year.

(d) Key management compensation

	2009 RMB'000	2008 RMB'000
Salaries, wages and bonuses	7,412	5,106
Pension cost - defined contribution plan	123	123
Other benefits	1,028	942
	8,563	6,171

35. Particulars of subsidiaries

The following is a list of the principal subsidiaries, which are unlisted, at 31 December 2009:

Name	Place and date of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
Directly held-				
Texhong Textile Holdings Limited	British Virgin Islands 26 May 2004 limited liability company	Investment holding in British Virgin Islands	100 ordinary shares of USD1 each	100%
Texhong Textile Investment Limited	British Virgin Islands 9 December 2004 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%
Sunray International Holdings Limited	British Virgin Islands 21 January 2005 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%
Texhong Vietnam Investment Limited	British Virgin Islands, 6 Sep 2006 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%
Indirectly held-				
天虹纺织(泰州)有限公司 Texhong Textile (Taizhou) Co., Ltd.	Tai Zhou, Mainland China, 20 October 1997,limited liability company	Manufacturing and sales of yarns and grey fabrics in Mainland China	USD193,750	100%
天虹纺织(睢宁)有限公司 Texhong Textile (Suining) Co., Ltd.	Xuzhou, Mainland China,26 June 1998, limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress in Mainland China	USD187,500	100%
泰州天虹织造有限公司 Taizhou Texhong Weaving Co., Ltd.	Taizhou, Mainland China, 15 January 2000,limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD2,625,000	100%
浙江天虹纺织有限公司 Zhejiang Texhong Textile Co., Ltd.	Jinhua, Mainland China, 18 May 2000 limited liability company	Manufacturing and sales of industrial -use textile products, top-grade grey fabrics and blended-spinning in Mainland China	USD6,350,000	100%

35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
江苏世纪天虹纺织有限公司 Jiangsu Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 6 June 2000 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress; processing of cotton in Mainland China	USD10,200,000	100%
泰州世纪天虹纺织有限公司 Taizhou Century Texhong Textile Co., Ltd.	Taizhou, Mainland China, 23 April 2002 limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD13,000,000	100%
南通世纪天虹纺织有限公司 Nantong Century Texhong Textile Co., Ltd.	Nantong, Mainland China, 7 June 2002 limited liability company	Manufacturing and sales of yarns, grey fabrics and dyed fabrics in Mainland China	USD3,850,000	100%
徐州世纪天虹纺织有限公司 Xuzhou Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 13 January 2003, limited liability company	Manufacturing and sales of top-grade yarns and cloth spinning in Mainland China	USD625,000	100%
徐州天虹银丰纺织有限公司 Xuzhou Texhong Yinfeng Textile Co., Ltd.	Xuzhou, Mainland China, 12 May 2004 limited liability company	Manufacturing and sales of yarns, grey fabrics, cloth and dyed fabrics in Mainland China	USD4,200,000	100%
南通天虹银海实业有限公司 Nantong Texhong Yinhai Industrial Co., Ltd.	Nantong, Mainland China, 20 May 2004 limited liability company	Manufacturing and sales of garment, textile knitting products and yarns in Mainland China	USD3,500,000	100%
徐州天虹时代纺织有限公司 Xuzhou Texhong Times Textile Co., Ltd.	Xuzhou, Mainland China, 29 December 2004, limited liability company	Manufacturing and sales of top-grade yarns, thread, grey fabrics, textile knitting products, and garments in Mainland China	USD15,000,000	100%
天虹(中国)投资有限公司 Texhong (China) Investment Co., Ltd.	Shanghai, Mainland China, 21 June 2005 Limited liability company	Investment holding and trading of textile products in Mainland China	USD30,000,000	100%

35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
徐州天虹银联纺织有限公司 Xuzhou Texhong Yinlian Textile Co., Ltd.	Xuzhou, Mainland China, 30 March 2006 limited liability company	manufacturing top-grade yarns, thread, grey fabrics, dresses, in Mainland China	USD12,500,000	100%
泰州天虹银泰纺织有限公司 Taizhou Texhong Yintai Textile Co., Ltd.	Taizhou, Mainland China, 26 May 2006 Limited liability company	Manufacturing top-grade garment and special textile for construction in Mainland China	USD6,500,000	100%
Sunray Macao Commercial Offshore Limited.	Macao, 19 December 2005 limited liability company	Trading in Macao	MOP$100,000	100%
Texhong Textile (Hong Kong) Limited.	Hong Kong, 11 May 2006 limited liability company	Investment holding in Hong Kong	10,000 ordinary share of HKD1	100%
常州天虹纺织有限公司 Changzhou Texhong Textile Co., Ltd.	Changzhou, Mainland China 1 January 1979 limited liability company	Manufacturing and sales of textile, decoration and garment in Mainland China	RMB32,145,000	100%
Sunray Trading (Hong Kong) Limited	Hong Kong, 16 February 2005 Limited liability company	Trading, investment and corporate services in Hong Kong	10,000 ordinary shares of HKD1	100%
Texhong Vietnam Textile Joint Stock Company (formerly known as Texhong (Vietnam) Textile Limited)	Vietnam, 24 October 2006 limited liability company	Manufacturing of yarn in Vietnam	USD16,000,000	100%
Texhong Textile Nantong Ltd.	British Virgin Islands, 14 March 2007 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%
Texhong Textile Nantong Investment Limited	Hong Kong, 6 November 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%

35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
Texhong Textile (Hong Kong) Holdings Limited	Hong Kong, 24 October 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%
TVN (Hong Kong) Limited	Hong Kong, 4 December 2007 limited liability company	Investment holding in Hong Kong	HK10,000	100%
上海特斯虹贸易有限公司 Shanghai Texhong Trading Co., Ltd.	Shanghai, Mainland China, 11 August 2008 limited liability company	Trading of textile products in Mainland China	USD500,000	100%
上海虹润贸易有限公司 Shanghai Hongrun Textile Co.,Ltd.	Shanghai, Mainland China, 7 January 2009 limited liability company	Trading of textile products in Mainland China	RMB5,000,000	100%

Texhong (China) Investment Co., Ltd. is a wholly foreign owned investment holding company incorporated in Mainland China. All other subsidiaries established in Mainland China are wholly owned foreign enterprises incorporated in Mainland China.

None of the subsidiaries had any loan capital in issue at any time during year ended 31 December 2009 (2008: None).

The English names of the certain subsidiaries represent the best effort by the Group's management to translate their Chinese names, as they do not have official English names.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of
Texhong Textile Group Limited
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F-84 to F-146, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2009

Texhong Textile Group Limited

Consolidated balance sheet
As at 31 December 2008
(All amounts in RMB)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Land use rights	6	116,482	104,622
Property, plant and equipment	7	1,467,211	1,187,543
Investment in an associate	9	34,572	43,799
Deferred income tax assets	19	4,855	3,607
		1,623,120	1,339,571
Current assets			
Inventories	10	690,026	651,899
Trade receivables	11	78,124	127,401
Bill receivables	11	385,989	237,431
Prepayments, deposits and other receivables	12	87,351	78,440
Pledged bank deposits	13	21,570	10,773
Cash and cash equivalents	13	313,012	199,615
		1,576,072	1,305,559
Current liabilities			
Trade and bill payables	20	631,068	467,502
Accruals and other payables	21	226,762	155,637
Current income tax liabilities		8,018	7,325
Borrowings	17	522,607	225,253
Derivative financial instruments	18	7,915	-
		1,396,370	855,717
Net current assets		179,702	449,842
Total assets less current liabilities		1,802,822	1,789,413
Non-current liabilities			
Borrowings	17	554,267	702,584
Deferred income tax liabilities	19	20,173	11,078
		574,440	713,662
Net assets		1,228,382	1,075,751
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	94,064	93,990
Reserves	16	1,134,318	981,761
Total equity		1,228,382	1,075,751

Hong Tianzhu
Director

Zhu Yongxiang
Director

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Balance sheet
As at 31 December 2008
(All amounts in RMB)

	Note	2008	2007
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	7	385	550
Investments in subsidiaries	8	860,939	826,962
		861,324	827,512
Current assets			
Prepayments, deposits and other receivables	12	93	717
Due from subsidiaries	8	408,326	312,401
Cash and cash equivalents	13	3,568	1,639
		411,987	314,757
Current liabilities			
Accruals and other payables	21	85,448	17,468
Due to subsidiaries	8	128,511	2,015
Borrowings	17	189,234	-
		403,193	19,483
Net current assets		8,794	295,274
Total assets less current liabilities		870,118	1,122,786
Non-current liabilities			
Borrowings	17	382,377	579,973
Net assets		487,741	542,813
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	94,064	93,990
Reserves	16	393,677	448,823
Total equity		487,741	542,813

Hong Tianzhu
Director

Zhu Yongxiang
Director

The accompanying notes are an integral part of this financial statement.

Texhong Textile Group Limited

Consolidated statement of comprehensive income
For the year ended 31 December 2008
(All amounts in RMB)

	Note	2008 RMB'000	2007 RMB'000
Sales	22	3,737,641	3,254,109
Cost of sales	24	(3,278,706)	(2,819,358)
Gross profit		458,935	434,751
Selling and distribution costs	24	(91,277)	(75,851)
General and administrative expenses	24	(164,204)	(144,390)
Other income	23	66,156	21,673
Other losses/(gains) - net	23	(4,831)	43,109
Operating profit		264,779	279,292
Finance income	26	3,947	3,594
Finance costs	26	(3,392)	(23,457)
Finance income/(costs) - net	26	555	(19,863)
Share of (loss)/profit of an associate	9	(16,966)	3,178
Profit before income tax		248,368	262,607
Income tax expense	27	(34,175)	(24,830)
Profit for the year attributable to equity holders of the Company		214,193	237,777
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
- basic	30	0.24	0.27
- diluted	30	0.24	0.27
Dividends	31	-	62,073

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Consolidated statement of changes in equity
For the year ended 31 December 2008
(All amounts in RMB)

	Note	Attributable to equity holders of the Company		
		Share capital	**Reserves (Note 16)**	**Total**
		RMB'000	RMB'000	RMB'000
Balance at 1 January 2007		92,842	768,807	861,649
Issue of shares upon exercise of share options		116	686	802
Issue of shares for acquisition of an associate		1,032	12,278	13,310
Surplus on revaluation of buildings, net of deferred income tax		-	4,945	4,945
Profit for the year		-	237,777	237,777
Dividend paid	31	-	(35,044)	(35,044)
Currency translation differences		-	(7,688)	(7,688)
Balance at 31 December 2007		93,990	981,761	1,075,751
Balance at 1 January 2008, as per above		93,990	981,761	1,075,751
Issue of shares upon exercise of share options	14	74	437	511
Profit for the year		-	214,193	214,193
Dividend paid	31	-	(62,073)	(62,073)
Balance at 31 December 2008		94,064	1,134,318	1,228,382

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Consolidated cash flow statement
For the year ended 31 December 2008
(All amounts in RMB)

	Note	2008	2007
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	32	396,178	190,869
Interest received		3,947	3,594
Income tax paid		(25,635)	(20,823)
Net cash generated from operating activities		374,490	173,640
Cash flows from investing activities			
Acquisition of an associate		-	(15,000)
Capital contribution to an associate	9	(7,739)	(12,311)
Purchase of property, plant and equipment		(309,727)	(436,722)
Proceeds from disposal of property, plant and equipment and land use rights	32	25,917	9,968
Acquisition of land use rights	6	(25,818)	(35,900)
(Increase)/decrease in pledge of bank deposits		(10,797)	3,624
Net cash used in investing activities		(328,164)	(486,341)
Cash flows from financing activities			
Proceeds from issuance of shares		511	802
Proceeds from borrowings		856,809	1,138,023
Repayments of borrowings		(653,133)	(680,420)
Dividends paid to Company's equity holders	31	(62,073)	(35,044)
Interest paid		(75,043)	(50,932)
Net cash generated from financing activities		67,071	372,429
Net increase in cash and cash equivalents		113,397	59,728
Cash and cash equivalents at beginning of the year	13	199,615	139,887
Cash and cash equivalents at end of the year	13	313,012	199,615

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of yarn, grey fabrics and dyed fabrics.

The Company was incorporated in Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited. (the"Stock Exchange") since 9 December 2004.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 1 April 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of events and actions, actual results ultimately may differ from those estimates.

(a) Amendments and interpretations effective in 2008 but are not relevant nor have any impact to the Group's financial statements

The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met.

HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions'.

HK (IFRIC) – Int 12, 'Service Concession arrangements'.

HK(IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.

- HKAS 23 (Revised), 'Borrowing costs' (effective for annual period starting from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009. The amendment has no impact on the Group's accounting policies as the Group's existing accounting policy on borrowing costs comply with the amended requirements.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The adoption will not have significant impact to the Group as the Group has no non-controlling interests.

- HKFRS 2 (Amendment), 'Share-based payment' (effective for annual period starting from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 3 (Revised), 'Business combinations' (effective for annual period starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are to be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, 'Operating segments' (effective for annual period starting from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have a material impact on the number of reportable segments as well as the manner in which the segments are reported.

- HK(IFRIC) - Int 16 , 'Hedges of a net investment in a foreign operation' (effective for annual period starting from 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) - Int 16 from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  - HKAS 1 (Amendment), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

  - HKAS 23 (Amendment), 'Borrowing costs' (effective for annual period starting from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

  - HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests relating to investment in associates and any related impairment losses from 1 January 2009.

  - HKAS 36 (Amendment), 'Impairment of assets' (effective for annual period starting from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  - HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009, but it is not expected to have any significant impact on the Group's financial statements.

  - HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual period starting from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  - There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group's operations:

- HKAS 19 (Amendment), 'Employee benefits' (effective for annual period starting from 1 January 2009).

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective for annual period starting from 1 January 2009).

- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective for annual period starting from 1 January 2009).

- HKAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' - 'Eligible hedged items' (effective for annual period starting from 1 July 2009).

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009).

- HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective for annual period starting from 1 July 2008).

- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective for annual period starting from 1 January 2009).

- HK(IFRIC) - Int 17 - 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  - HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective for annual period starting from 1 January 2009).

  - HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for annual period starting from 1 January 2009).

  - HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective for annual period starting from 1 January 2009).

  - HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009).

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations (continued)

HKICPA's improvements to HKFRS published in October 2008 (continued)

- HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective for annual period starting from 1 January 2009).

- HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual period starting from 1 January 2009).

- HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009).

- HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective for annual period starting from 1 January 2009).

- HKAS 41 (Amendment), 'Agriculture' (effective for annual period starting from 1 January 2009).

- Amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.7 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's presentation currency.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains - net'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

–	Buildings	15 to 40 years
–	Machinery and equipment	6 to 15 years
–	Furniture and fixtures	3 to 10 years
–	Motor vehicles	5 to 7 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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

2. Summary of significant accounting policies (continued)

2.6 Land use rights

The premiums paid to acquire land use rights are recorded as prepayment for operating lease, and are amortised using the straight-line method over the period of the land use rights of 50 years.

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of item being hedged. Derivative instruments held by the Group do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within other (losses)/gains – net.

2.9 Government grants/subsidies

Grants/subsidies from government authorities are recognised at their fair value where there is a reasonable assurance that the grant/subsidies will be received and the Group will comply with all attached conditions.

Government grants/subsidies relating to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

Government grants/subsidies relating to compensation for relocation are deferred and recognised in the income statements over the period when the relocation takes place.

2. Summary of significant accounting policies (continued)

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the consolidated income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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.

2. Summary of significant accounting policies (continued)

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of significant accounting policies (continued)

2.17 Employee benefits (continued)

(c) 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, with a corresponding adjustment to equity.

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.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. Summary of significant accounting policies (continued)

2.19 Revenue recognition (continued)

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Subsidy income/government grants

Subsidy income/government grants, representing discretionary subsidies/grants granted by various government authorities, is recognised when received.

(c) Consulting income

Consulting income is recognised when the total amount of revenue and costs arising from the provision of services can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow in and the stage of completion of the services provided can be measured reliably.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

2.22 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The ongoing global financial crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. The global financial crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has used derivative financial instruments to hedge certain of its risk exposures on changes in foreign currency exchange rates and interest rates.

(a) *Foreign exchange risk*

The Group mainly operates in Mainland China and Vietnam. Most of the Group's transactions, assets and liabilities are dominated in RMB or United States dollars ("USD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group is exposed to foreign exchange risk primarily through transactions that are denominated in a currency other than the functional currency of the Company and its subsidiaries. It manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

During the year, the Group's exposure to foreign exchange risk mainly arose from its bank borrowings denominated in USD. The Group's management has entered into forward foreign exchange contracts to mitigate certain of the foreign exchange risk exposure during the year (Note 18).

At 31 December 2008, if RMB had weakened/strengthened by 6.4% (2007: 4.0%) against USD with all other variable held constant, post-tax profit for the year would have been RMB58,316,000 (2007: RMB22,087,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated pledged bank deposits, cash and cash equivalents, trade and bill receivables, trade and bill payables and borrowings.

3. Financial risk management

3.1 Financial risk factors

(b) *Cash flow and fair value interest rate risk*

Except for pledged bank deposits and cash at bank (Note 13), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact resulted from changes in interest rates on interest bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2008, approximately 7% of the Group's borrowings were at fixed rates and the remaining were at floating rates.

The Group manages certain of its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2008, the Group converted borrowings of RMB57,411,00 (2007: RMB122,717,000) from floating rates to fixed rates through interest rate swaps (Note 18).

As at 31 December 2008, if interest rates on USD-denominated borrowings had been 0.55 percentage-points lower/higher with all other variables held constant, post-tax profit for the year would have been RMB4,046,000 (2007: RMB4,974,000) higher/lower, mainly as a result of lower/ higher interest expense on floating rate borrowings.

(c) *Credit risk*

The Group has no significant concentration of credit risk. The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bill receivables and prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables.

The Group's management performs periodic credit evaluations/reviews of its customers and ensure that sales are made to customers with an appropriate credit history. The Group places deposits with major banks in Mainland China and Hong Kong, and limits the amount of credit exposure to any financial institution.

To lower the Group's exposure to credit risk, the Group may request deposits from customers before dlivery of goods. In addition, most of the sales are covered by letters of credit issued by banks. As at 31 December 2008, 82% (2007: 64%) of the trade and bill receivables are covered by letters of credit issued by banks.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) *Liquidity risk*

Prudent liquidity risk management includes 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. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 17 to the consolidated financial statements.

The liquidity crisis under the ongoing global financial crisis could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

As at 31 December 2008, certain of the Group's borrowings are subject to the Group's compliance with certain financial performance indicators (Note 17). Deteriorating operating performance may affect the Group's compliance with these indicators and this will impact the Group's liquidity situation.

Management believes that they are taking all the necessary measures to maintain sufficient liquidity reserve to support sustainability and growth of the Group's business in the current circumstances and to repay outstanding borrowings when they fall due. Currently, the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) *Liquidity risk (Continued)*

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	RMB'000	RMB'000	RMB'000
Group			
At 31 December 2008			
Borrowings	522,607	289,807	264,460
Interests payments on borrowings	33,521	17,423	60,948
Trade and bill payables	631,068	-	-
Other payables	172,237	-	-
	1,359,433	307,230	325,408
At 31 December 2007			
Borrowings	225,253	179,292	523,292
Interests payments on borrowings	52,644	48,108	63,290
Trade and bill payables	467,502	-	-
Other payables	95,705	-	-
	841,104	227,400	586,582
Company			
At 31 December 2008			
Borrowings	189,234	215,077	167,300
Interests payments on borrowings	19,391	10,517	58,094
Due to subsidiaries	128,511	-	-
Other payables	84,599	-	-
	421,735	225,594	225,394
At 31 December 2007			
Borrowings	-	132,714	447,259
Interests payments on borrowings	38,961	38,961	44,566
Due to subsidiaries	2,015	-	-
Other payables	14,436	-	-
	55,412	171,675	491,825

3. Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of net gearing ratio. This ratio is calculated as total borrowings less pledged bank deposits and cash and cash equivalents divided by total equity. The Group's strategy is to maintain a net gearing ratio at a level acceptable by management and the relevant banks who granted loans to the Group.

The gearing ratios are as follows:

	2008 RMB'000	**2007** RMB'000
Total borrowings	1,076,874	927,837
Less: pledged bank deposits and cash and cash equivalents (Note 13)	(334,582)	(210,388)
Net debt	742,292	717,449
Total equity	1,228,382	1,075,751
Net gearing ratio	60%	67%

The decrease in gearing ratio during 2008 was a result of the increase in total equity from 2008's profit and the increase in cash balances generated from operations.

3. Financial risk management (continued)

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

The Group makes reference to professional valuations over the fair value of buildings. The valuation is based on market conditions existing at each balance sheet date.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever 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. Actual economic lives may differ from estimated useful lives, and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

4. Critical accounting estimates and judgments (continued)

4.2 Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

4.3 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

4.4 Impairment of trade, bill and other receivables

The Group's management determines the provision for impairment of trade, bill and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

4.5 Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

5. Segmental information

(a) *Primary reporting – business segments*

The Group operates in one business segment: manufacturing and sale of yarn, grey fabrics and dyed fabrics. Accordingly, no analysis by business segments is presented.

(b) *Secondary reporting format – geographical segments*

The Group mainly operates in Mainland China and Vietnam.

	2008 RMB'000	2007 RMB'000
Sales		
Mainland China	3,656,029	3,225,638
Vietnam	81,612	28,471
	3,737,641	3,254,109

Sales is allocated based on the country where the goods were shipped.

	2008 RMB'000	2007 RMB'000
Segment results		
Mainland China	230,437	296,526
Vietnam	42,911	(3,943)
Macao	17,517	6,376
Hong Kong	(26,086)	(19,667)
Operating profit	264,779	279,292

Segment results is allocated based on the location where operating companies are situated.

	2008 RMB'000	2007 RMB'000
Total assets		
Mainland China	2,140,520	2,126,672
Vietnam	1,008,154	459,927
Macao	38,711	18,784
Hong Kong	11,807	39,747
	3,199,192	2,645,130

Total assets are allocated based on where the assets are situated.

5. Segmental information (continued)

(b) *Secondary reporting format – geographical segments* (continued)

	2008 RMB'000	**2007** RMB'000
Capital expenditure		
Mainland China	112,564	193,134
Vietnam	303,389	309,057
	415,953	502,191

Capital expenditure is allocated based on where the assets are situated.

6. Land use rights - Group

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2008 RMB'000	**2007** RMB'000
Leases of between 10 to 50 years		
- In Mainland China	96,088	83,812
- In Vietnam	20,394	20,810
	116,482	104,622

As at 31 December 2008, land use rights with a net book amount of nil (2007: RMB4,704,000) was pledged as collateral of the Group's bank borrowings (Note 17).

	2008 RMB'000	**2007** RMB'000
Opening amount	104,622	70,519
Additions	25,818	35,900
Disposals	(12,175)	-
Amortisation	(1,783)	(1,070)
Exchange difference	-	(727)
Closing amount	116,482	104,622
Cost	121,915	109,451
Accumulated amortisation	(5,433)	(4,829)
Net book amount	116,482	104,622

Amortisation was included in cost of sales.

As at 31 December 2008, land use rights of RMB10,082,000 (2007: RMB10,082,000) consisted of cost of RMB59,269,000 (2007: RMB59,269,000), less related government grant of RMB49,187,000 (2007: RMB49,187,000) which was deducted from the acquisition cost.

7. Property, plant and equipment – Group and Company

Group

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Con-struction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007						
Cost or valuation	219,793	679,067	8,797	10,751	65,002	983,410
Accumulated depreciation	(15,077)	(138,613)	(2,751)	(2,912)	-	(159,353)
Net book amount	204,716	540,454	6,046	7,839	65,002	824,057
Year ended 31 December 2007						
Opening net book amount	204,716	540,454	6,046	7,839	65,002	824,057
Additions	2,894	33,147	3,055	935	409,982	450,013
Transfers	89,685	197,116	-	-	(286,801)	-
Revaluation (Note 16)	6,693	-	-	-	-	6,693
Disposals	(1,744)	(8,472)	(64)	-	-	(10,280)
Depreciation	(8,726)	(60,369)	(2,332)	(1,112)	-	(72,539)
Exchange difference	(1,725)	(5,228)	(26)	(18)	(3,404)	(10,401)
Closing net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
At 31 December 2007						
Cost or valuation	315,421	888,054	11,749	11,409	184,779	1,411,412
Accumulated depreciation	(23,628)	(191,406)	(5,070)	(3,765)	-	(223,869)
Net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
Year ended 31 December 2008						
Opening net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
Additions	8,148	2,552	3,442	209	375,784	390,135
Transfers	78,818	53,073	-	-	(131,891)	-
Disposals	(5,223)	(10,013)	(258)	(442)	-	(15,936)
Depreciation	(14,175)	(76,362)	(2,210)	(1,784)	-	(94,531)
Closing net book amount	359,361	665,898	7,653	5,627	428,672	1,467,211
At 31 December 2008						
Cost or valuation	395,380	932,108	14,852	10,666	428,672	1,781,678
Accumulated depreciation	(36,019)	(266,210)	(7,199)	(5,039)	-	(314,467)
Net book amount	359,361	665,898	7,653	5,627	428,672	1,467,211

7. Property, plant and equipment – Group and Company (continued)

Buildings with net book amount of RMB273,284,000 (2007: RMB291,793,000) were stated at open market value at 31 December 2007, based on a valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The revaluation surplus, net of applicable deferred income tax liabilities, was credited to revaluation reserve in equity (Note 16).

During the year ended 31 December 2008, depreciation of RMB83,925,000 (2007: RMB65,526,000) was included in cost of sales, RMB88,000 (2007: RMB27,000) was included in selling and distribution costs and RMB10,518,000 (2007: RMB6,986,000) was included in general and administrative expenses.

During the year ended 31 December 2008, finance cost of RMB6,275,000 (2007: RMB2,524,000) was capitalised as part of property, plant and equipment at a rate of 6.1% (2007: 6.4%) per annum (Note 26).

As at 31 December 2008, property, plant and equipment of approximately RMB311,700,000 (2007: RMB46,007,000) were pledged as collateral of the Group's bank borrowings (Note 17).

If buildings were stated on historical cost basis, the amounts would be as follows:

	2008	**2007**
	RMB'000	RMB'000
Cost	334,588	254,629
Accumulated depreciation	(26,255)	(18,547)
Net book amount	308,333	236,082

The analysis of the cost or valuation of the above assets is as follows:

	Buildings	**Machinery and equipment**	**Furniture and fixtures**	**Motor vehicles**	**Con-struction in-progress**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008						
At cost	86,966	932,108	14,852	10,666	428,672	1,473,264
At valuation – 31 December 2007	308,414	-	-	-	-	308,414
	395,380	932,108	14,852	10,666	428,672	1,781,678
At 31 December 2007						
At cost	-	888,054	11,749	11,409	184,779	1,095,991
At valuation – 31 December 2007	315,421	-	-	-	-	315,421
	315,421	888,054	11,749	11,409	184,779	1,411,412

Lease rental expense of RMB12,751,000 (2007: RMB8,634,000), relating to the lease of buildings and machinery, was included in cost of sales (Note 24).

7. Property, plant and equipment – Group and Company (continued)

Company	**Furniture and fixtures** RMB'000
At 1 January 2007	
Cost	1,206
Accumulated depreciation	(416)
Net book amount	790
Year ended 31 December 2007	
Opening net book amount	790
Additions	20
Disposal	(64)
Depreciation	(196)
Net book amount	550
At 31 December 2007	
Cost	1,149
Accumulated depreciation	(599)
Net book amount	550
Year ended 31 December 2008	
Opening net book amount	550
Depreciation	(165)
Net book amount	385
At 31 December 2008	
Cost	1,149
Accumulated depreciation	(764)
Net book amount	385

8. Investments in and amounts due from/to subsidiaries - Company

	Company	
	2008 RMB'000	**2007** RMB'000
Unlisted shares, at cost	246,989	246,989
Due from subsidiaries – non-current portion (Note(a))	613,950	579,973
	860,939	826,962
Due from subsidiaries - current portion (Note(b))	408,326	312,401
Due to subsidiaries (Note(b))	128,511	2,015

Notes:

(i) Amounts due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

(ii) The amounts due from/to subsidiaries are unsecured, non-interest bearing and are repayable within one year.

Particulars of the principal subsidiaries of the Company are set out in Note 35
.

9. Investment in an associate – Group

	2008 RMB'000	**2007** RMB'000
Share of net assets of unlisted associate (Note (a))	34,381	43,608
Goodwill (Note (b))	191	191
	34,572	43,799

(a) Movement of share of net asset attributable to the Group:

	2008 RMB'000	**2007** RMB'000
Opening amount	43,608	-
Acquisition	-	28,119
Capital contribution	7,739	12,311
Share of (loss)/profit	(16,966)	3,178
Closing amount	34,381	43,608

(b) Movement of goodwill:

	2008 RMB'000	**2007** RMB'000
Opening amount	191	-
Acquisition	-	191
Closing amount	191	191

Impairment assessment of goodwill

Goodwill is attributable to Nantong Textile Group Co., Ltd., which is considered to be a single cash-generating unit ("CGU"). The recoverable amount of goodwill is determined based on the value-in-use calculation, using cash flow projections based on a three-year financial budget approved by management. The financial budget is determined according to past performance and management's expectation for the market development. The pre-tax discount rate used in the value-in-use calculation is approximately 10% per annum, which reflects specific risks relating to Nantong Textile Group Co., Ltd..

9. Investment in an associate – Group (continued)

(c) Particulars of the associate, which is unlisted, are as follows:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Paticulars of issued share capital	Interest
			RMB'000	
Nantong Textile Group Co., Ltd.	Nanton, Mainland China, 11 September 2002 limited liability company	Manufacturing and sales of top-grade textile knitting products and garments	116,375	37%

(d) The Group's share of revenue, (loss)/profit for the year, assets and liabilities of the associate, which have been included in the consolidated income statement and balance sheet using equity method, are as follows:

	2008 RMB'000	**2007** RMB'000
Revenue	155,993	38,996
(Loss)/Profit for the year	(16,966)	3,178
Non-current assets	105,799	101,718
Current assets	36,663	48,150
Current liabilities	(56,042)	(49,583)
Non-current liabilities	(52,039)	(56,677)
	34,381	43,608

10. Inventories - Group

	2008 RMB'000	**2007** RMB'000
Raw materials	397,946	419,218
Work-in-progress	47,070	54,088
Finished goods	245,010	178,593
	690,026	651,899

In 2008, the Group recorded additional provision for inventory obsolescence of RMB6,843,000 (2007: reversed provision of RMB3,781,000) (Note 24).This amount has been included in cost of sales.

As at 31 December 2008, there were floating charges over certain of the Group's inventories of RMB47,752,000 (2007: RMB14,604,000) to secure certain of the Group's bank borrowings (Note 17).

11. Trade and bill receivables - Group

	2008 RMB'000	2007 RMB'000
Trade receivables	85,354	132,019
Less: provision for impairment	(7,230)	(4,618)
	78,124	127,401
Bill receivables	385,989	237,431
	464,113	364,832

The fair values of trade and bill receivables approximate their carrying amounts.

As at 31 December 2008, bill receivable of approximately RMB 81,821,000 (2007: Nil) was pledged as collateral for issuance of letter of credits.

The Group generally grants credit terms of less than 90 days to its customers. The ageing analysis of the trade and bill receivables is as follows:

	2008 RMB'000	2007 RMB'000
0 to 30 days	281,255	287,068
31 to 90 days	107,647	38,459
91 to 180 days	75,692	32,277
181 days to 1 year	1,551	2,401
Over 1 year	5,198	9,245
	471,343	369,450
Less: provision for impairment	(7,230)	(4,618)
Trade and bill receivables – net	464,113	364,832

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

As at 31 December 2008, included in the trade receivables was amounts due from related parties of nil (2007: RMB4,485,000) (Note 34).

Trade receivables that are less than 90 days past due are generally not considered impaired, which amounted to RMB464,024,000 as at 31 December 2008 (2007: RMB358,656,000). As at 31 December 2008, trade receivables past due by more than 90 days of RMB89,000 (2007: RMB6,176,000) is considered not to be impaired. These relate to a number of customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	2008 RMB'000	2007 RMB'000
91 to 180 days	89	3,072
181 days to 1 year	-	2,276
Over 1 year	-	828
	89	6,176

11. Trade and bill receivables – Group (continued)

As at 31 December 2008, trade receivables of RMB7,230,000 (2007: 4,618,000) were impaired and had been fully provided for. These receivables relate to a number of customers, including customers in unexpected difficult economic situations. The past due ageing of these receivables is as follows:

	2008 RMB'000	**2007** RMB'000
91 to 180 days	1,381	43
181 days to 1 year	651	30
Over 1 year	5,198	4,545
	7,230	4,618

Trade and bill receivables are denominated in the following currencies:

	2008 RMB'000	**2007** RMB'000
RMB	458,960	336,898
United States dollars	12,383	32,552
	471,343	369,450

Movements of the provision for impairment of trade receivables are:

	2008 RMB'000	**2007** RMB'000
At 1 January	4,618	3,901
Provision reversed when the related receivables were collected	(356)	-
Provision for receivable impairment	2,968	717
At 31 December	7,230	4,618

The creation and release of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of receiving additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of trade and bill receivables.

12. Prepayments, deposits and other receivables – Group and Company

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for purchase of raw materials	69,418	63,036	-	-
Deposit for acquisition of land use right	11,000	2,131	-	-
Staff advances	752	2,584	93	94
Value-added tax recoverable	169	5,160	-	-
Prepaid expenses	645	1,703	-	608
Deposits	1,062	1,137	-	9
Other receivables	4,305	2,689	-	6
	87,351	78,440	93	717

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

Included in deposits were amount due from an associate of RMB4,122,000 as at 31 December 2008 (2007: Nil) (Note 34).

13. Pledged bank deposits and cash and cash equivalents – Group and Company

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	21,570	10,773	-	-
Cash at bank and in hand	313,012	199,615	3,568	1,639
	334,582	210,388	3,568	1,639

As at 31 December 2008, the weighted average effective interest rate on pledged bank deposits and other bank deposits was 0.4% (2007: 0.7%) per annum. The pledged bank deposits have maturities of 75 days at inception (2007: 75 days).

13. Pledged bank deposits and cash and cash equivalents – Group and Company (continued)

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	261,794	100,160	-	-
United States dollars	70,413	105,968	3,330	6
Hong Kong dollars	1,054	1,902	238	1,633
Vietnam Dong	1,196	2,212	-	-
Others	125	146	-	-
	334,582	210,388	3,568	1,639

Majority of the cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange controls promulgated by the Mainland China Government.

14. Share capital – Group and Company

	Note	Ordinary shares of HK$0.1 each Number of shares '000	HK$'000	RMB'000
Authorised:				
At 31 December 2007 and 2008		4,000,000	400,000	
Issued and fully paid:				
At 1 January 2007		872,000	87,200	92,842
Issue of shares upon exercise of share options	15(i)	1,200	120	116
Issue of shares for acquisition of an associate		10,655	1,066	1,032
At 31 December 2007		883,855	88,386	93,990
At 1 January 2008		883,855	88,386	93,990
Issue of shares upon exercise of share options	15(i)	826	83	74
At 31 December 2008		884,681	88,469	94,064

15. Share options – Group and Company

(i) Pre-IPO Share Option Scheme

On 21 November 2004, the Company granted 4,342,000 options to certain senior management of the Group under a Pre-IPO Share Option Scheme to subscribe for shares in the Company at HK$0.69 per share, exercisable over the period from 9 June 2005 to 8 June 2008. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of the options determined using the Black-Scholes valuation model was RMB433,000. The significant inputs into the model were share price of HK$0.69 per share at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, expected life of options of half year, expected dividend paid out rate of zero and annual risk-free interest rate of 2.88%. The volatility measured at the standard deviation of expected share price returns is based on expected share prices over the year after the Group's initial public offering.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in HK dollar per share	Options (thousands)	Average exercise price in HK dollar per share	Options (thousands)
At 1 January	0.69	3,142	0.69	4,342
Exercised	0.69	(826)	0.69	(1,200)
Expired	0.69	(2,316)	-	-
At 31 December	-	-	0.69	3,142

(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 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; and (iii) the nominal value of the share. A nominal consideration of HK$1 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 31 December 2008, no options had been granted under the Share Option Scheme (2007: Nil).

16. Other reserves – Group and Company

	Group						
	Share premium RMB'000	Capital reserve(i) RMB'000	Statutory reserves(ii) RMB'000	Revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	175,817	162,041	79,667	29,466	-	321,816	768,807
Issue of shares upon exercise of share options	686	-	-	-	-	-	686
Issue of shares for acquisition of an associate	12,278	-	-	-	-	-	12,278
Surplus on revaluation of buildings							
- gross (Note 7)	-	-	-	6,693	-	-	6,693
- deferred income tax (Note 19)	-	-	-	(1,748)	-	-	(1,748)
Transfer to statutory reserves	-	-	31,504	-	-	(31,504)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,043)	-	2,043	-
- deferred income tax (Note 19)	-	-	-	1,886	-	(1,886)	-
	188,781	162,041	111,171	34,254	-	290,469	786,716
Profit for the year	-	-	-	-	-	237,777	237,777
Dividend paid	-	-	-	-	-	(35,044)	(35,044)
Currency translation differences	-	-	-	-	(7,688)	-	(7,688)
Balance at 31 December 2007	188,781	162,041	111,171	34,254	(7,688)	493,202	981,761
At 1 January 2008	188,781	162,041	111,171	34,254	(7,688)	493,202	981,761
Issue of shares upon exercise of share options	437	-	-	-	-	-	437
Transfer to statutory reserves	-	-	23,377	-	-	(23,377)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,662)	-	2,662	-
- deferred income tax (Note 19)	-	-	-	723	-	(723)	-
	189,218	162,041	134,548	32,315	(7,688)	471,764	982,198
Profit for the year	-	-	-	-	-	214,193	214,193
Dividend paid	-	-	-	-	-	(62,073)	(62,073)
At 31 December 2008	189,218	162,041	134,548	32,315	(7,688)	623,884	1,134,318

16. Other reserves – Group and Company (continued)

	Company			
	Share premium RMB'000	Capital reserve(i) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	175,817	172,319	48,081	396,217
Issue of shares upon exercise of share options	686	-	-	686
Issue of shares for acquisition of an associate	12,278	-	-	12,278
Profit for the year	-	-	74,686	74,686
Dividend paid	-	-	(35,044)	(35,044)
At 31 December 2007	188,781	172,319	87,723	448,823
At 1 January 2008	188,781	172,319	87,723	448,823
Issue of shares upon exercise of share options	437	-	-	437
Profit for the year	-	-	6,490	6,490
Dividend paid	-	-	(62,073)	(62,073)
At 31 December 2008	189,218	172,319	32,140	393,677

Notes:

(i) Capital reserve represents the difference between the amount of share capital issued and the net asset value of the subsidiaries acquired.

(ii) As stipulated by regulations in Mainland China, the Company's subsidiaries established and operated in Mainland China are required to appropriate a portion of their after-tax profit (after offsetting prior years' losses) to statutory reserves, at rates determined by their respective boards of directors. Such transfer is not required when the amount of the statutory reserve reaches 50% of the corresponding subsidiaries' registered capital.

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

17. Borrowings – Group and Company

	Group		Company	
	2008 RMB'000	**2007** RMB'000	**2008** RMB'000	**2007** RMB'000
Current				
Unsecured bank borrowings (Note (c))	189,234	32,753	189,234	-
Secured bank borrowings (Note (a))	88,460	31,500	-	-
Other bank borrowings (Note (b))	244,913	161,000	-	-
	522,607	225,253	189,234	-
Non-current				
Unsecured bank borrowings (Note (c))	215,077	486,752	215,077	398,141
Secured bank borrowings (Note (a))	113,050	-	-	-
Other bank borrowings (Note (b))	58,840	34,000	-	-
Notes payable (Note (d))	167,300	181,832	167,300	181,832
	554,267	702,584	382,377	579,973
Total borrowings	1,076,874	927,837	571,611	579,973

Notes:

(a) Bank borrowings of RMB201,510,000 (2007: RMB31,500,000) were secured by the followings:

(i) pledge of the Group's property, plant and equipment with a net book amount of approximately RMB311,700,000 as at 31 December 2008 (2007: RMB46,007,000) (Note7);

(ii) floating charges over the Group's inventories with a net book amount of RMB47,752,000 as at 31 December 2008 (2007: RMB14,604,000) (Note 10); and

(iii) pledge of the Group's land use rights with a net book amount of nil (2007: RMB4,704,000) (Note 6);

(b) Other bank borrowings were secured by cross corporate guarantees provided by certain subsidiaries totalling of RMB303,753,000 as at 31 December 2008 (2007: RMB195,000,000).

(c) Mr. Hong Tianzhu, chairman and an executive director, has undertaken to maintain at least 30% equity interest in the Company unless otherwise agreed by the relevant bank in respect of the provision of unsecured non-current bank borrowings.

(d) As at 31 December 2008, notes payable represents US$25 million guaranteed notes, maturing in 2012. The notes payable bears interest of the fixed rate of 6.8% per annum from July 2006 to June 2007 and with reference to Deutsche Bank Municipal Forward Rate Bias Index.

17. Borrowings – Group and Company (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008 RMB'000	**2007** RMB'000	**2008** RMB'000	**2007** RMB'000
RMB	226,000	226,500	-	-
United States dollars	850,874	701,337	571,611	579,973
	1,076,874	927,837	571,611	579,973

The weighted average effective interest rates (per annum) at year ended are as follows:

	2008		2007	
	USD	RMB	USD	RMB
Bank borrowings	5.5%	6.6%	6.7%	6.4%
Notes payable	3.8%	-	6.8%	-

At 31 December 2008, the Group's borrowings were repayable as follows:

	Group		Company	
	2008 RMB'000	**2007** RMB'000	**2008** RMB'000	**2007** RMB'000
Within 1 year	522,607	225,253	189,234	-
Between 1 and 2 years	289,807	179,292	215,077	132,714
Between 2 and 5 years	264,460	523,292	167,300	447,259
	1,076,874	927,837	571,611	579,973

The fair values of current borrowings approximately their carrying amounts, as the impact of discounting is not significant.The carrying amount and fair value of non-current borrowings are as follows:

	Carrying amount		Fair value	
	2008 RMB'000	**2007** RMB'000	**2008** RMB'000	**2007** RMB'000
Bank borrowings	386,967	520,752	386,266	518,294
Notes payable	167,300	181,832	189,318	176,166
	554,267	702,584	575,584	694,460

17. Borrowings – Group and Company (continued)

As at 31 December 2008, the fair values of the non-current borrowings and notes payable were based on estimated cash flows discounted using the effective interest rates of 5.76% (2007: 7.29%) and 3.8% (2007:6.8%).

In respect of the Group's borrowings totalling of RMB571,611,000 (2007: 579,973,000), the Group has to comply with certain restrictive financial covenants, including, among others the following:

(i) maintain a multiple of consolidated earnings before income tax (EBIT), as defined by banks, to consolidated interest expense of at least 4 times (2007: 4 times);
(ii) maintain total equity of more than RMB1,000,000,000 (2007: RMB800,000,000); and
(iii) maintain total borrowings of less than 3 times (2007: 3.25 times) of earnings before income tax, depreciation and amortisation (EBITDA), as defined by banks, and such total borrowings have to be less than the total equity.

In addition, certain subsidiaries of the Group have to comply with restrictive financial covenants based on the financial position and operating results of the subsidiaries.

17. Borrowings – Group and Company (continued)

The Group has the following undrawn borrowing facilities:

	2008 RMB'000	2007 RMB'000
Floating rates		
- expiring within one year	20,000	225,318
- expiring beyond one year	-	229,876
	20,000	455,194

The facilities expiring within one year are annual facilities subject to review at various dates during 2009.

18. Derivative financial instruments - Group

	Liabilities	
	2008 RMB'000	2007 RMB'000
Interest rate swap and forward foreign exchange contracts	7,915	-

Non-hedging derivatives are classified as a current asset or liability.

The notional principal amounts of the outstanding interest rate swap and forward foreign exchange contracts at 31 December 2008 were RMB57,411,000 (2007: RMB122,717,000). At 31 December 2008, the fixed interest rate was 3.98% (2007: 3.98%) and the forward USD/RMB exchange rate was 7.197 (2007: 7.197), and the main floating rate is LIBOR. Gains and losses recognised in the other (losses)/gains – net (Note 23) in the consolidated income statement.

19. Deferred income tax - Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	2008 RMB'000	2007 RMB'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	(146)	(670)
- Deferred tax assets to be recovered within 12 months	(4,709)	(2,937)
	(4,855)	(3,607)
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	9,568	11,078
- Deferred tax liabilities to be recovered within 12 months	10,605	-
	20,173	11,078
Deferred tax liabilities - net	15,318	7,471

The gross movement in deferred income tax account is as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	7,471	7,337
Income statement charged (Note 27)	8,570	272
Credited to income statement then transferred to equity (Notes 16 and 27)	(723)	(1,886)
Taxation charged to equity in relation to the revaluation of buildings (Note16)	-	1,748
At 31 December	15,318	7,471

19. Deferred income tax - Group (continued)

Movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Tax losses RMB'000	Temporary differences in respect of provisions and accruals RMB'000	Total RMB'000
At 1 January 2007	758	3,121	3,879
Charged to the consolidated income statement (Note 27)	(88)	(184)	(272)
At 31 December 2007 and 1 January 2008	670	2,937	3,607
Charged to the consolidated income statement (Note 27)	(131)	1,379	1,248
At 31 December 2008	539	4,316	4,855

Deferred income tax liabilities:

	Revaluation of buildings RMB'000	Withholding tax relating to unremitted earings of subsidiaries RMB'000	Total RMB'000
At 1 January 2007	11,216	-	11,216
Taxation charged to equity in relation to revaluation of buildings (Note 16)	1,748	-	1,748
Reversal relating to additional depreciation	(1,886)	-	(1,886)
At 31 December 2007 and 1 January 2008	11,078	-	11,078
Reversal relating to additional depreciation	(723)	-	(723)
Withholding tax relating to unremitted earings of subsidiaries	-	9,818	9,818
At 31 December 2008	10,355	9,818	20,173

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2008, the Group did not recognise deferred income tax assets of nil (2007: RMB 317,000) in respect of losses amounting to nil (2007: RMB3,171,000) that can be carried forward against future taxable income.

Deferred income tax of RMB723,000 (2007: RMB527,000) was transferred from other reserves (Note 16) to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

20. Trade and bill payables - Group

	2008 RMB'000	**2007** RMB'000
Trade payables	537,927	152,662
Bill payables	93,141	314,840
	631,068	467,502

Included in the trade payables was amount due to an associate of RMB8,161,000 as at 31 December 2008 (2007:RMB1,366,000) (Note 34).

The ageing analysis of the trade and bill payables (including amount due to a an associate of trading in nature) is as follows:

	2008 RMB'000	**2007** RMB'000
0 to 90 days	205,966	272,557
91 to 180 days	211,575	187,261
181 days to 1 year	208,952	3,671
Over 1 year	4,575	4,013
	631,068	467,502

Trade and bill payables are denominated in the following currencies:

	2008 RMB'000	**2007** RMB'000
RMB	232,458	453,793
United States dollars	389,026	9,475
Vietnam Dong	9,584	4,234
	631,068	467,502

The fair values of trade and bill payables approximately their carrying amounts.

21. Accruals and other payables – Group and Company

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued wages and salaries	34,263	38,756	-	200
Interest payable	4,447	15,184	3,867	14,436
Accrual of operating expenses	20,262	21,176	849	2,832
Deposits from customers	34,352	14,013	-	-
Other deposits	3,951	5,185	-	-
Payables for purchase of property, plant and equipment	100,508	26,375	80,732	-
Other payables	21,513	33,452	-	-
Tax payables other than Mainland China enterprise income tax	7,466	1,496	-	-
	226,762	155,637	85,448	17,468

22. Sales

The Group is principally engaged in the manufacturing and sale of yarn, grey fabrics and dyed fabrics. Sales recognised represented sales of goods, net of value-added tax.

23. Other income and other (losses)/gains, net

	2008	**2007**
	RMB'000	RMB'000
Other income		
Subsidy income (Note (i))	33,149	18,408
Government grants relating to the relocation of a subsidiary	18,370	-
Consulting income (Note (ii))	11,691	-
Re-investment incentives based on income tax paid	2,946	3,265
	66,156	21,673
Other (losses)/gains - net		
Derivative financial liability at fair value through profit or loss:		
- Unrealised loss (Note 18)	(7,915)	-
- Realised loss	(6,991)	-
Net foreign exchange gains/(losses) (Note 28)	5,001	(3,813)
Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary	-	38,894
Others	5,074	8,028
Total other (losses)/gains -net	(4,831)	43,109

Notes:

(i) Subsidy income mainly related to incentives for development in Xuzhou, Mainland China and grants provided by municipal governments based on the amounts of value added tax and income tax paid.

(ii) Consulting income related to technical services in providing operating data and statistics to a machinery vendor, which was charged at a fixed price of approximately RMB11,691,000.

24. Expenses by nature

	2008 RMB'000	2007 RMB'000
Changes in inventories of finished goods and work in progress	(59,399)	(68,582)
Raw materials and consumables used	2,823,298	2,440,525
Employment costs (Note 25)	302,138	276,040
Depreciation and amortisation (Notes 6 and 7)	96,314	73,609
Office expense	20,731	30,206
Utilities	193,437	167,565
Transportation	67,387	57,265
Auditor's remuneration	3,586	3,820
Lease rental expense of buildings and machinery (Note 7)	12,751	8,634
Provision for impairment of trade receivables (Note 11)	2,612	717
Provison for/(reversal of) inventory obsolescence (Note 10)	6,843	(3,781)
Losses on disposal of property, plant and equipment and land use rights (Note 32)	2,194	312
Other expenses	62,295	53,269
Total cost of sales, selling and distribution costs and general and administrative expenses	3,534,187	3,039,599

25. Employment costs

	2008 RMB'000	2007 RMB'000
Wages, salaries and bonuses	267,853	240,779
Pension costs – defined contribution plans (Note (a))	17,156	15,884
Other welfare benefits (Note (b))	8,134	7,552
Other employment benefits	8,995	11,825
	302,138	276,040

Notes:

(a) Pension – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in Mainland China. The Group and the eligible employees are required to contribute 12% to 22% and 7% to 8%, respectively, of the employees' basic salary (subject to a cap) at rates as stipulated by the relevant municipal governments. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. For the year ended 31 December 2008, the Group contributed approximately RMB17,080,000 (2007: RMB15,808,000) to the aforesaid state-sponsored retirement plans.

25. Employment costs (continued)

Notes:

(a) Pension – defined contribution plans (continued)

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident fund legislation, and both the Group and the employees' contributions are subject to a cap of HK$1,000 per month. For the year ended 31 December 2008, the Group contributed approximately RMB76,000 (2007: RMB76,000) to the MPF Scheme.

(b) Other welfare benefits

All of the Group's employees in Mainland China and Vietnam participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by governmental authorities.

During the year ended 31 December 2008, the Group contributed approximately RMB8,134,000 (2007: RMB7,552,000) to these plans.

(c) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	-	-	906	18	924
Zhu Yongxiang	-	720	640	12	18	1,390
Gong Zhao	-	382	320	12	18	732
Tang Daoping	-	360	720	12	18	1,110
Independent non-executive directors						
Ting Leung Huel, Stephen	170	-	-	-	-	170
Cheng Longdi	73	-	-	-	-	73
Zhu Lanfen	73	-	-	-	-	73
	316	1,462	1,680	942	72	4,472

25. Employment costs (continued)

(c) Directors' and senior management's emoluments (continued)

The remuneration of every director for the year ended 31 December 2007 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Dis-cretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	-	-	905	18	923
Zhu Yongxiang	-	720	800	12	18	1,550
Gong Zhao	-	382	400	12	18	812
Tang Daoping	-	360	720	12	18	1,110
Independent non-executive directors						
Ting Leung Huel, Stephen	160	-	-	-	-	160
Cheng Longdi	69	-	-	-	-	69
Zhu Lanfen	69	-	-	-	-	69
	298	1,462	1,920	941	72	4,693

Note:

(i) Other benefits represent housing allowance and other social security benefits. Those social security benefits mainly include medical and unemployment insurances and are organised and administered by governmental authorities in Mainland China.

None of the directors waived any emoluments during the year ended 31 December 2008 (2007: Nil).

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual is as follows:

	2008 RMB'000	**2007** RMB'000
Basic salaries and allowances	505	892
Bonuses	42	200
Pension cost – Defined contribution plan	11	11
	558	1,103

(e) During the year ended 31 December 2008, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

26. Finance income and costs

	2008 RMB'000	**2007** RMB'000
Interest expense - bank borrowings wholly repayable within five years	64,306	60,282
Less: amount capitalised in property, plant and equipment (Note 7)	(6,275)	(2,524)
	58,031	57,758
Exchange gain on financing activities (Note 28)	(54,639)	(34,301)
Finance costs	3,392	23,457
Finance income – interest income on bank deposits	(3,947)	(3,594)
Net finance (income)/costs	(555)	19,863

27. Income tax expense

The amount of income tax charged to the consolidation income statement represents:

	2008 RMB'000	**2007** RMB'000
Mainland China enterprise income tax		
- Current	27,823	26,444
- Overprovision in prior years	(1,495)	-
Deferred income tax (Note 19)	7,847	(1,614)
	34,175	24,830

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2007: Nil).

(ii) Mainland China enterprise income tax ("EIT")

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 18% to 25% during the year (2007: 15% to 33%).

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries established in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

27. Income tax expense (continued)

(iii) Vietnam income tax

The subsidiary established in Vietnam is subject to income tax rate of 10% (2007: 10%). As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam is entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction, commencing in the first profitable year after offsetting the losses carried forward from the previous years. The Group is exempted from Vietnam income tax during the year (2007: nil) as 2008 is the first profit making year after offsetting prior years' losses.

(iv) Other income tax

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

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The subsidiary established in Macao is subject to income tax rate of 9% (2007: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the year (2007:Nil).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	2008 RMB'000	**2007** RMB'000
Profit before income tax, after excluding share of (loss)/profit of an associate	265,334	259,429
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	68,840	73,960
Effect of tax exemption/reduction	(34,944)	(51,239)
Expenses not deductible for tax purposes	2,091	1,881
Tax losses for which no deferred income tax asset was recognised	-	317
Utilisation of previously unrecognised tax losses	(317)	(89)
Overprovision in prior year	(1,495)	-
	34,175	24,830

The weighted average applicable tax rate was 26% (2007: 29%). The decrease in tax rate was due to the application of lower income tax rate for certain subsidiaries upon the adoption of new Corporate Income Tax Law in Mainland China.

During the year ended 31 December 2008, the Group has not shared any income tax of its associate company (2007: RMB27,000).

28. Net foreign exchange losses

The exchange differences credited/(charged) to the consolidated income statement are included as follows:

	2008 RMB'000	**2007** RMB'000
Other (losses)/gains - net (Note 23)	5,001	(3,813)
Finance costs (Note 26)	54,639	34,301
	59,640	30,488

29. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB6,490,000 (2007: RMB74,686,000).

30. Earning per share

(a) 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 year.

	2008	**2007**
Profit attributable to equity holders of the Company (RMB'000)	214,193	237,777
Weighted average number of ordinary shares in issue (thousands)	884,425	874,842
Basic earnings per share (RMB per share)	0.24	0.27

(b) Diluted
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. A calculation is made in order 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.

	2008	**2007**
Profit attributable to equity holders of the Company (RMB'000)	214,193	237,777
Weighted average number of ordinary shares in issue (thousands)	884,425	874,842
Adjustments for share options (thousands)	-	1,572
Weighted average number of ordinary shares for diluted earnings per share (thousands)	884,425	876,414
Diluted earnings per share (RMB per share)	0.24	0.27

31. Dividends

The directors did not recommend the payment of a final dividend for the year ended 31 December 2008.

	2008 RMB'000	**2007** RMB'000
Proposed final dividend of nil (2007: HKD0.075) per ordinary share	-	62,073

32. Cash generated from operations

	2008 RMB'000	**2007** RMB'000
Profit before income tax	248,368	262,607
Adjustments for:		
– Amortisation	1,783	1,070
– Depreciation	94,531	72,539
– Share of loss/(profit) from an associate	16,966	(3,178)
– Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary	-	(38,894)
– Loss on disposal of property, plant and equipment and land use rights (note)	2,194	312
– Finance (income)/costs – net	(555)	19,863
– Fair value loss on derivative financial instruments	7,915	-
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Inventories	(38,127)	(201,177)
– Trade and bill receivables	(99,281)	(137,380)
– Prepayments, deposits and other receivables	(8,911)	19,659
– Trade and bill payables	163,566	196,953
– Accruals and other payables	7,729	(1,505)
Cash generated from operations	396,178	190,869

Note:

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment and land use rights comprise:

	2008 RMB'000	**2007** RMB'000
Net book amount (Notes 6 and 7)	28,111	10,280
Losses on disposal of property, plant and equipment and land use rights	(2,194)	(312)
Proceeds from disposal of property, plant and equipment and land use rights	25,917	9,968

33. Commitments

(a) Capital commitments

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

	2008 RMB'000	2007 RMB'000
Property, plant and equipment		
Contracted but not provided for	22,804	220,514
Authorised but not contracted for	-	39,605
	22,804	260,119
Land use rights		
Authorised but not contracted for	20,000	-
Total capital commitments	42,804	260,119

(b) Lease commitments

The Group leases various land, offices and warehouses under non-cancellable operating lease agreements.

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

	2008 RMB'000	2007 RMB'000
No later than 1 year	4,995	7,954
Later than 1 year and no later than 5 years	8,858	14,387
Later than 5 years	75,276	77,150
	89,129	99,491
Representing:		
Land use right	85,708	88,113
Property, plant and equipment	3,421	11,378
	89,129	99,491

34. Related-party transactions

Parties are considered to be relatd 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 operating decisions. Parties are also considered to be related if they are subject to common control.

New Green Group Limited (incorporated in the British Virgin Islands) owns 44.7% of the Company's shares. Hong Tianzhu, director of the Company, is the principal shareholder of New Green Group Limited. Hong Tianzhu has a beneficial shareholding of 54.6% in the Company through New Green Group Limited, his own capacity, and other investment hoding companies. Mr. Zhu Yongxiang, director of the Company, has a beneficial shareholding of 17.6% in the Company through some investment holding companies.

The Company's directors and the Group's management are of the view that the following companies are related parties of the Group:

Name of related party	**Relationship with the Group**
Nantong Textile Group Co., Ltd.	Associate company
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	Controlled by Hongkong Tinhong Industrial Co., Ltd., a company controlled by Hong Tianzhu, a director of the Company

The Group had the following significant transactions with its related parties, as follows:

(a) Sales of goods

	2008	**2007**
	RMB'000	RMB'000
Sales of goods:		
- Nantong Textile Group Co., Ltd.	12,582	4,185
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	-	28
	12,582	4,213

34. Related-party transactions (continued)

(b) Purchases of goods

	2008 RMB'000	2007 RMB'000
Purchases of goods		
- Nantong Textile Group Co., Ltd.	14,099	2,841
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	-	681
	14,099	3,522

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

(c) Balance with related parties

The Group had the following significant balances with related parties

	2008 RMB'000	2007 RMB'000
Trade receivables from related parties (Note 11)		
- Nantong Textile Group Co., Ltd.	-	518
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	-	3,967
	-	4,485
Deposits to a related party (Note 12)		
- Nantong Textile Group Co., Ltd.	4,122	-
Trade payable to a related party (Note 20)		
- Nantong Textile Group Co., Ltd.	8,161	1,366

The balances with related parties are unsecured, non-interest bearing and are repayable within one year.

(d) Key management compensation

	2008 RMB'000	2007 RMB'000
Salaries, wages and bonuses	5,106	6,137
Pension cost - defined contribution plan	123	122
Other benefits	942	1,050
	6,171	7,309

Texhong Textile Group Limited

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For the year ended 31 December 2008
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35. Particulars of subsidiaries

The following is a list of the principal subsidiaries, which are unlisted, at 31 December 2008:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
Directly held-				
Texhong Textile Holdings Limited	British Virgin Islands 26 May 2004 limited liability company	Investment holding in British Virgin Islands	100 ordinary shares of USD1 each	100%
Texhong Textile Investment Limited	British Virgin Islands 9 December 2004 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%
Sunray International Holdings Limited	British Virgin Islands 21 January 2005 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%
Texhong Vietnam Investment Limited	British Virgin Islands, 6 Sep 2006 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%
Indirectly held-				
天虹纺织(泰州)有限公司 Texhong Textile (Taizhou) Co., Ltd.	Tai Zhou, Mainland China, 20 October 1997,limited liability company	Manufacturing and sales of yarns and grey fabrics in Mainland China	USD193,750	100%
天虹纺织(睢宁)有限公司 Texhong Textile (Suining) Co., Ltd.	Xuzhou, Mainland China,26 June 1998, limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress in Mainland China	USD187,500	100%
泰州天虹织造有限公司 Taizhou Texhong Weaving Co., Ltd.	Taizhou, Mainland China, 15 January 2000,limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD2,625,000	100%
浙江天虹纺织有限公司 Zhejiang Texhong Textile Co., Ltd.	Jinhua, Mainland China, 18 May 2000 limited liability company	Manufacturing and sales of industrial -use textile products, top-grade grey fabrics and blended-spinning in Mainland China	USD6,350,000	100%

Texhong Textile Group Limited

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For the year ended 31 December 2008
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35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
江苏世纪天虹纺织有限公司 Jiangsu Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 6 June 2000 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress; processing of cotton in Mainland China	USD10,200,000	100%
泰州世纪天虹纺织有限公司 Taizhou Century Texhong Textile Co., Ltd.	Taizhou, Mainland China, 23 April 2002 limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD13,000,000	100%
南通世纪天虹纺织有限公司 Nantong Century Texhong Textile Co., Ltd.	Nantong, Mainland China, 7 June 2002 limited liability company	Manufacturing and sales of yarns, grey fabrics and dyed fabrics in Mainland China	USD3,850,000	100%
徐州世纪天虹纺织有限公司 Xuzhou Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 13 January 2003, limited liability company	Manufacturing and sales of top-grade yarns and cloth spinning in Mainland China	USD625,000	100%
徐州天虹银丰纺织有限公司 Xuzhou Texhong Yinfeng Textile Co., Ltd.	Xuzhou, Mainland China, 12 May 2004 limited liability company	Manufacturing and sales of yarns, grey fabrics, cloth and dyed fabrics in Mainland China	USD4,200,000	100%
南通天虹银海实业有限公司 Nantong Texhong Yinhai Industrial Co., Ltd.	Nantong, Mainland China, 20 May 2004 limited liability company	Manufacturing and sales of garment, textile knitting products and yarns in Mainland China	USD3,500,000	100%
徐州天虹时代纺织有限公司 Xuzhou Texhong Times Textile Co., Ltd.	Xuzhou, Mainland China, 29 December 2004, limited liability company	Manufacturing and sales of top-grade yarns, thread, grey fabrics, textile knitting products, and garments in Mainland China	USD15,000,000	100%
天虹(中国)投资有限公司 Texhong (China) Investment Co., Ltd.	Shanghai, Mainland China, 21 June 2005 Limited liability company	Investment holding and trading of textile products in Mainland China	USD30,000,000	100%

35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
徐州天虹银联纺织有限公司 Xuzhou Texhong Yinlian Textile Co., Ltd.	Xuzhou, Mainland China, 30 March 2006 limited liability company	manufacturing top-grade yarns, thread, grey fabrics, dresses, in Mainland China	USD12,500,000	100%
泰州天虹银泰纺织有限公司 Taizhou Texhong Yintai Textile Co., Ltd.	Taizhou, Mainland China, 26 May 2006 Limited liability company	Manufacturing top-grade garment and special textile for construction in Mainland China	USD6,500,000	100%
Sunray Macao Commercial Offshore Limited.	Macao, 19 December 2005 limited liability company	Trading in Macao	MOP$100,000	100%
Texhong Textile (Hong Kong) Limited.	Hong Kong, 11 May 2006 limited liability company	Investment holding in Hong Kong	10,000 ordinary share of HKD1	100%
常州天虹纺织有限公司 Changzhou Texhong Textile Co., Ltd.	Changzhou, Mainland China 1 January 1979 limited liability company	Manufacturing and sales of textile, decoration and garment in Mainland China	RMB32,145,000	100%
Sunray Trading (Hong Kong) Limited	Hong Kong, 16 February 2005 Limited liability company	Trading, investment and corporate services in Hong Kong	10,000 ordinary shares of HKD1	100%
Texhong Vietnam Textile Joint Stock Company (formerly known as Texhong (Vietnam) Textile Limited)	Vietnam, 24 October 2006 limited liability company	Manufacturing of yarn in Vietnam	USD16,000,000	100%
Texhong Textile Nantong Ltd.	British Virgin Islands, 14 March 2007 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%
Texhong Textile Nantong Investment Limited	Hong Kong, 6 November 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%

35. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest
Texhong Textile (Hong Kong) Holdings Limited	Hong Kong, 24 October 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%
TVN (Hong Kong) Limited	Hong Kong, 4 December 2007 limited liability company	Investment holding in Hong Kong	HK10,000	100%
上海特斯虹贸易有限公司 Shanghai Texhong Trading Co., Ltd.	Shanghai, Mainland China, 11 August 2008 limited liability company	Trading of textile products in Mainland China	USD500,000	100%

Texhong (China) Investment Co., Ltd. is an investment holding company incorporated in Mainland China. All other subsidiaries established in Mainland China are wholly owned foreign enterprises incorporated in Mainland China.

None of the subsidiaries had any loan capital in issue at any time during year ended 31 December 2008 (2007: None).

The English names of the certain subsidiaries represent the best effort by the Group’s management to translate their Chinese names, as they do not have official English names.

Independent Auditor's Report
To the shareholders of Texhong Textile Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F-148 to F-203, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 April 2008

Texhong Textile Group Limited

Consolidated balance sheet
As at 31 December 2007
(All amounts in RMB)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Land use rights	6	104,622	70,519
Property, plant and equipment	7	1,187,543	824,057
Goodwill	9	-	888
Investment in an associate	10	43,799	-
Deferred income tax assets	19	3,607	3,879
		1,339,571	899,343
Current assets			
Inventories	11	651,899	450,722
Trade and bills receivables	12	364,832	227,452
Prepayments, deposits and other receivables	13	78,440	98,099
Pledged bank deposits	14	10,773	14,397
Cash and cash equivalents	14	199,615	139,887
		1,305,559	930,557
Current liabilities			
Trade and bills payables	20	467,502	270,549
Accruals and other payables	21	155,637	171,786
Current income tax liabilities		7,325	1,704
Borrowings	18	225,253	308,538
		855,717	752,577
Net current assets		449,842	177,980
Total assets less current liabilities		1,789,413	1,077,323
Non-current liabilities			
Borrowings	18	702,584	204,458
Deferred income tax liabilities	19	11,078	11,216
		713,662	215,674
Net assets		1,075,751	861,649
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	93,990	92,842
Reserves	17	981,761	768,807
Total equity		1,075,751	861,649

Hong Tianzhu
Chairman

Zhu Yongxiang
Executive Director

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Balance sheet
As at 31 December 2007
(All amounts in RMB)

	Note	2007	2006
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	7	550	790
Interests in subsidiaries	8	826,962	246,989
		827,512	247,779
Current assets			
Prepayments, deposits and other receivables	13	717	732
Due from subsidiaries	8	312,401	243,371
Cash and cash equivalents	14	1,639	525
		314,757	244,628
Current liabilities			
Accruals	21	17,468	2,768
Due to a subsidiary	8	2,015	580
		19,483	3,348
Net current assets		295,274	241,280
Total assets less current liabilities		1,122,786	489,059
Non-current liabilities			
Borrowings	18	579,973	-
Net assets		542,813	489,059
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	93,990	92,842
Reserves	17	448,823	396,217
Total equity		542,813	489,059

Hong Tianzhu
Chairman

Zhu Yongxiang
Executive Director

The accompanying notes are an integral part of this financial statement.

Texhong Textile Group Limited

Consolidated statement of comprehensive income
For the year ended 31 December 2007

(All amounts in RMB)

	Note	2007	2006
		RMB'000	RMB'000
Sales	5,22	3,254,109	2,667,216
Cost of sales	24	(2,819,358)	(2,264,353)
Gross profit		434,751	402,863
Selling and distribution costs	24	(75,851)	(64,849)
General and administrative expenses	24	(144,390)	(110,817)
Other income	23	21,673	17,365
Other gains/(losses) - net	23	43,109	(1,756)
Operating profit		279,292	242,806
Finance income	26	3,594	4,431
Finance costs	26	(23,457)	(32,443)
Finance costs - net	26	(19,863)	(28,012)
Share of profit of an associate	10	3,178	-
Profit before income tax		262,607	214,794
Income tax expense	27	(24,830)	(24,258)
Profit for the year, attributable to equity holders of the Company		237,777	190,536
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- basic	30	0.27	0.22
- diluted	30	0.27	0.22
Dividends	31	62,073	60,949

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Consolidated statement of changes in equity
For the year ended 31 December 2007
(All amounts in RMB)

	Note	Attributable to equity holders of the Company		
		Share capital	**Reserves (Note 17)**	**Total**
		RMB'000	RMB'000	RMB'000
Balance at 1 January 2006		92,842	663,472	756,314
Profit for the year		-	190,536	190,536
Dividend relating to 2005		-	(59,296)	(59,296)
Dividend relating to 2006	31	-	(25,905)	(25,905)
Balance at 31 December 2006		92,842	768,807	861,649
Balance at 1 January 2007, as per above		92,842	768,807	861,649
Issue of shares upon exercise of share options	15	116	686	802
Acquisition of an associate	35	1,032	12,278	13,310
Surplus on revaluation of buildings, net of deferred tax		-	4,945	4,945
Profit for the year		-	237,777	237,777
Dividend relating to 2006	31	-	(35,044)	(35,044)
Currency translation differences		-	(7,688)	(7,688)
Balance at 31 December 2007		93,990	981,761	1,075,751

The accompanying notes are an integral part of these consolidated financial statements.

Texhong Textile Group Limited

Consolidated cash flow statement
For the year ended 31 December 2007
(All amounts in RMB)

	Note	2007	2006
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	32	190,869	99,886
Interest received		3,594	4,431
Interest paid		(50,932)	(35,214)
Income tax paid		(20,823)	(27,765)
Net cash generated from operating activities		122,708	41,338
Cash flows from investing activities			
Acquisition of subsidiary, net of cash and cash equivalents acquired		-	3,560
Acquisition of an associate	35	(15,000)	-
Capital contribution to an associate	10	(12,311)	-
Purchase of property, plant and equipment		(436,722)	(223,063)
Proceeds from disposal of property, plant and equipment	32	9,968	1,871
Prepaid operating lease payments for land use rights	6	(52,178)	(26,336)
Government grant received	6	16,278	11,020
Net cash used in investing activities		(489,965)	(232,948)
Cash flows from financing activities			
Proceeds from issuance of shares		802	-
Proceeds from borrowings		1,138,023	603,026
Repayments of borrowings		(680,420)	(429,261)
Repayment of government borrowings		-	(11,500)
Dividends paid to Company's equity holders	31	(35,044)	(85,201)
Decrease/(Increase) in pledged bank deposits		3,624	(5,539)
Net cash generated from financing activities		426,985	71,525
Net increase/(decrease) in cash and cash equivalents		59,728	(120,085)
Cash and cash equivalents at beginning of the year	14	139,887	259,972
Cash and cash equivalents at end of the year	14	199,615	139,887

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in the manufacturing and sale of yarn, grey fabrics and dyed fabrics.

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 address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited. ("the Stock Exchange") since 9 December 2004.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 3 April 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Texhong Textile Group Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of events and actions, actual results ultimately may differ from those estimates.

(a) Standards, amendment and interpretations effective in 2007

In 2007, the Group adopted the HKFRS, Hong Kong Accounting Standards ("HKAS") and HK(IFRIC) – Interpretations below, which are effective for accounting periods beginning on or after 1 January 2007 and relevant to its operations. The impacts on the Group's accounting policies are set out below.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendment and interpretations effective in 2007 (continued)

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduce quantitative and qualitative disclosures relating to financial risks and credit quality of financial instruments and discussion of capital management strategy.

HK(IFRIC) - Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) - Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

HK(IFRIC) - Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'; and

HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2007 and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2007 and have not been early adopted by the Group (continued)

HKFRS 8, 'Operating segments ' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009 but it is not expected to have any significant impact on the presentation of Group's segment information.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRS. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Standards, amendments and interpretations to existing standards that are not yet effective in 2007 and not relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations

- HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions', effective from 1 March 2007.
- HK(IFRIC) - Int 12, 'Service concession arrangements' (effective from 1 January 2008).
- HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- HK(IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).
- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009).
- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009).

2.2 Consolidation

These consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.5).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2.8).

2. Summary of significant accounting policies (continued)

2.6 Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'revaluation reserve' to retained earnings.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

–	Buildings	15 to 40 years
–	Machinery and equipment	6 to 15 years
–	Furniture and fixtures	5 to 10 years
–	Motor vehicles	5 to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statements. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

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

2. Summary of significant accounting policies (continued)

2.7 Land use rights

The premiums paid to acquire land use rights are recorded as prepayment for operating lease, and are amortised using the straight-line method over the period of the land use rights of 50 years.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2. Summary of significant accounting policies (continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

2.17 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) 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, with a corresponding adjustment to equity.

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.

(d) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2. Summary of significant accounting policies (continued)

2.18 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Subsidy income

Subsidy income represents the discretionary subsidies granted by various government authorities. It is recognised when received.

(c) Commission income

Commission income is recognised when the total amount of revenue and costs arising from the provision of services can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow in and the stage of completion of the services provided can be measured reliably.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduced the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and the continuous unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of significant accounting policies (continued)

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 Contingent liabilities

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

2.22 Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

2.23 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Foreign exchange risk*

The Group mainly operates in the Mainland China. Most of the Group's transactions, assets and liabilities are dominated in RMB, United States dollars ("USD") and Vietnam Dong ("VND"). Foreign exchange risk also 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. The Group's exposure to foreign exchange risk is mainly attributable to its bank borrowings denominated in USD. As the Group management considers the possibility of the depreciation of RMB in the coming year is low, management does not anticipate there will be any significant foreign exchange risk associated with the Group's borrowing. As a result, the Group did not use any financial instruments to hedge its foreign exchange risk arising from the Group's borrowings.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 December 2007, if RMB had weakened/strengthened by 4% against the USD with all other variable held constant, post-tax profit for the year would have been RMB22,087,000 (2006: RMB8,556,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalents, trade and bills receivables, trade and bills payables and borrowings.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) *Cash flow and fair value interest rate risk*

Except for pledged bank deposits (Note 14) as at 31 December 2007 of RMB 10,773,000 (2006: RMB 14,397,000) which was interest bearing at an effective interest rate of 0.7% (2006: 0.7%), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact resulted from the change in interest rates on interest bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates in RMB expose the Group to fair value interest-rate risk. Group policy is to maintain approximately 20% of its borrowings in fixed rate instruments. During 2007 and 2006, the Group's borrowings at variable rate were denominated in USD.

As at 31 December 2007, if interest rates on USD-denominated borrowings had been 26 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,902,000 (2006: RMB1,558,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Management does not anticipate significant impact resulted from the changes in interest rates on borrowings and the Group has not used any interest-rate swap to manage its interest rate risk.

(c) *Credit risk*

The Group has no significant concentration of credit risk. The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and bills receivables and prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies that limit the amount of credit exposure to any financial institution.

As at 31 December 2007 and 2006, all the bank deposits were deposited in the highly quality financial institutions and without significant credit risk.

For trade and bills receivables and prepayments, deposits and other receivables, the Group has no significant concentration of credit risk. The Group also performs periodic credit evaluation of its customers and believes that adequate provision for doubtful debts has been made in the consolidated financial statements. The Group also has policies in place to ensure that services are made to customers with an appropriate credit history.

(d) *Liquidity risk*

Prudent liquidity risk management includes 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. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 18 to the financial statements.

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Notes to the consolidated financial statements
For the year ended 31 December 2007
(All amounts in RMB unless otherwise stated)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) *Liquidity risk (continued)*

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
Group			
At 31 December 2007			
Borrowings	225,253	179,292	523,292
Interests payments on borrowings (i)	52,644	48,108	63,290
Trade and bill payables	467,502	-	-
Other payables and accruals	155,637	-	-
	901,036	227,400	586,582
At 31 December 2006			
Borrowings	308,538	6,560	197,898
Interests payments on borrowings (i)	18,295	4,647	13,311
Trade and bill payables	270,549	-	-
Other payables and accruals	171,786	-	-
	769,168	11,207	211,209
Company			
At 31 December 2007			
Borrowings	-	132,714	447,259
Interests payments on borrowings (i)	38,961	38,961	44,566
Other payables and accruals	19,483	-	-
	58,444	171,675	491,825
At 31 December 2006			
Other payables and accruals	3,348	-	-

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2006 and 2007 without taking account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2006 and 2007 respectively.

3. Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio within 30% to 50%. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 RMB'000	**2006** RMB'000
Total borrowings (Note 18)	927,837	512,996
Less: Pledged bank deposits and cash and cash equivalents (Note 14)	(210,388)	(154,284)
Net debt	717,449	358,712
Total equity	1,075,751	861,649
Total capital	1,793,200	1,220,361
Gearing ratio	40%	29%

The increase in gearing ratio during 2007 resulted from the increase in borrowings and the borrowings were used for the business expansion in Vietnam.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

The Group takes reference to professional valuations over the fair value of buildings and debentures and uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever 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. Actual economic lives may differ from estimated useful lives, and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

4.2 Impairment of property, plant and equipment and intangible assets (other than goodwill)

Property, plant and equipment and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

4.3 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

4. Critical accounting estimates and judgments (continued)

4.4 Trade, bills and other receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. The assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

4.5 Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

5. Segmental information

(a) *Primary reporting – business segments*

As at 31 December 2007, the Group operated in one business segment - manufacturing and sale of yarn, grey fabrics and dyed fabrics. Accordingly, no analysis of the business segment information is presented.

(b) *Secondary reporting format – geographical segments*

The Group mainly operates in two main geographical areas, Mainland China and Vietnam.

The Group's sales is generated mainly within Mainland China and Vietnam.

	2007 RMB'000	**2006** RMB'000
Sales		
Mainland China	3,254,074	2,702,776
Vietnam	45,185	-
Other countries	371,947	93,115
	3,671,206	2,795,891
Inter-segment sales	(417,097)	(128,675)
	3,254,109	2,667,216

Sales is allocated based on the country in which the customer is located.

	2007 RMB'000	**2006** RMB'000
Segment results		
Mainland China	296,526	242,734
Vietnam	(3,943)	(1,743)
Other countries	3,527	4,806
Unallocated income less expense	(16,818)	(2,991)
Operating profit	279,292	242,806

Segment results is allocated based on where the operating profits arise.

	2007 RMB'000	**2006** RMB'000
Total assets		
Mainland China	2,082,873	1,689,803
Vietnam	459,927	131,010
Other countries	27,369	6,840
Unallocated assets	74,961	2,247
	2,645,130	1,829,900

Total assets are allocated based on where the assets are located.

5. **Segmental information** (continued)

(b) *Secondary reporting format – geographical segments* (continued)

	2007 RMB'000	2006 RMB'000
Capital expenditure		
Mainland China	193,134	221,764
Vietnam	309,057	11,445
	502,191	233,209

Capital expenditure is allocated based on where the assets are located.

6. Land use rights - Group

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2007 RMB'000	2006 RMB'000
Leases of between 10 to 50 years		
In Mainland China	83,812	70,519
Outside Mainland China	20,810	-
	104,622	70,519

Land use rights with a net book amount of approximately RMB4,704,000 (2006: RMB32,245,000) was pledged as collateral of the Group's bank borrowings (Note 18).

	2007 RMB'000	2006 RMB'000
Opening	70,519	56,098
Additions	52,178	26,336
Government grants received	(16,278)	(11,020)
Amortisation of prepaid operating lease payment (Note 24)	(1,070)	(895)
Exchange difference	(727)	-
	104,622	70,519

Amortisation expense has been included in general and administrative expenses.

As at 31 December 2007, land use rights amounting to RMB15,640,000 (2006: RMB5,421,000) consisted of cost of RMB64,827,000 (2006: RMB38,330,000), less related government grant of RMB49,187,000 (2006: RMB32,909,000) which was deducted from the acquisition cost.

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7. Property, plant and equipment

Group

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006						
Cost or valuation	102,325	353,362	4,654	8,573	234,555	703,469
Accumulated depreciation	(7,793)	(93,759)	(1,490)	(2,112)	-	(105,154)
Net book amount	94,532	259,603	3,164	6,461	234,555	598,315
Year ended 31 December 2006						
Opening net book amount	94,532	259,603	3,164	6,461	234,555	598,315
Acquisition of a subsidiary	30,268	45,765	68	575	1,688	78,364
Additions	5,223	37,699	4,075	3,543	156,333	206,873
Transfers	82,177	245,397	-	-	(327,574)	-
Disposals (Note 32)	(1)	(1,593)	-	(1,126)	-	(2,720)
Depreciation (Note 24)	(7,483)	(46,417)	(1,261)	(1,614)	-	(56,775)
Closing net book amount	204,716	540,454	6,046	7,839	65,002	824,057
At 31 December 2006						
Cost or valuation	219,793	679,067	8,797	10,751	65,002	983,410
Accumulated depreciation	(15,077)	(138,613)	(2,751)	(2,912)	-	(159,353)
Net book amount	204,716	540,454	6,046	7,839	65,002	824,057
Year ended 31 December 2007						
Opening net book amount	204,716	540,454	6,046	7,839	65,002	824,057
Additions	2,894	33,147	3,055	935	409,982	450,013
Transfers	89,685	197,116	-	-	(286,801)	-
Revaluation (Note 17)	6,693	-	-	-	-	6,693
Disposals (Note 32)	(1,744)	(8,472)	(64)	-	-	(10,280)
Depreciation (Note 24)	(8,726)	(60,369)	(2,332)	(1,112)	-	(72,539)
Exchange difference	(1,725)	(5,228)	(26)	(18)	(3,404)	(10,401)
Closing net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543
At 31 December 2007						
Cost or valuation	315,421	888,054	11,749	11,409	184,779	1,411,412
Accumulated depreciation	(23,628)	(191,406)	(5,070)	(3,765)	-	(223,869)
Net book amount	291,793	696,648	6,679	7,644	184,779	1,187,543

7. Property, plant and equipment (continued)

Buildings with net book amount of RMB291,793,000 (2006: RMB83,278,000) were stated at open market value at 31 December 2007, based on a valuation performed by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The revaluation surplus, net of applicable deferred income tax liabilities of RMB1,748,000, was credited to revaluation reserve in equity (Note 17).

Depreciation expense of RMB65,526,000 (2006: RMB48,981,000) has been charged in cost of sales, RMB27,000 (2006: RMB825,000) in selling and distribution costs and RMB6,986,000 (2006: RMB6,969,000) in general and administrative expenses.

Lease rental expenses amounting to RMB8,634,000 (2006: RMB3,960,000) relating to the lease of buildings and machinery are included in the cost of sales in the consolidated income statement (Note 24).

During the year ended 31 December 2007, borrowing costs of RMB2,524,000 (2006: RMB1,784,000) have been capitalised as part of property, plant and equipment, which represented interest expense of RMB2,524,000 (2006: RMB1,784,000) at an average capitalisation rate of 6.4% (2006: 6.9%) (Note 26).

As at 31 December 2007, property, plant and equipment of approximately RMB46,007,000 (2006: RMB17,814,000) were pledged as collateral of the Group's short-term bank borrowings (Note 18).

If buildings were stated on the historical cost basis, the amounts would be as follows:

	2007	**2006**
	RMB'000	RMB'000
Cost	254,629	177,622
Accumulated depreciation	(18,547)	(13,402)
Net book amount	236,082	164,220

The analysis of the cost or valuation at 31 December 2007 of the above assets is as follows:

	Buildings	**Machinery and equipment**	**Furniture and fixtures**	**Motor vehicles**	**Con-struction in-progress**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007						
At cost	-	888,054	11,749	11,409	184,779	1,095,991
At valuation – 31 December 2007	315,421	-	-	-	-	315,421
	315,421	888,054	11,749	11,409	184,779	1,411,412

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings	**Machinery and equipment**	**Furniture and fixtures**	**Motor vehicles**	**Con-struction in-progress**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2006						
At cost	119,446	679,067	8,797	10,751	65,002	883,063
At valuation – 30 September 2004	100,347	-	-	-	-	100,347
	219,793	679,067	8,797	10,751	65,002	983,410

7. Property, plant and equipment (continued)

Company	**Furniture and fixtures** RMB'000
At 1 January 2006	
Cost	569
Accumulated depreciation	(108)
Net book amount	461
Year ended 31 December 2006	
Opening net book amount	461
Additions	637
Depreciation	(308)
Net book amount	790
At 31 December 2006	
Cost	1,206
Accumulated depreciation	(416)
Net book amount	790
Year ended 31 December 2007	
Opening net book amount	790
Additions	20
Disposal	(64)
Depreciation	(196)
Net book amount	550
At 31 December 2007	
Cost	1,149
Accumulated depreciation	(599)
Net book amount	550

8. Investments in and amounts due from/to subsidiaries - Company

	Company	
	2007 RMB'000	**2006** RMB'000
Unlisted shares, at cost	246,989	246,989
Due from subsidiaries – non-current portion (Note(a))	579,973	-
	826,962	246,989
Due from subsidiaries - current portion (Note(b))	312,402	243,371
Due to a subsidiary (Note(b))	2,015	580

Notes:

(a) The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayments.

(b) The amounts due from/to subsidiaries are unsecured, non-interest bearing and are repayable within one year.

Particulars of the principal subsidiaries of the Company are set out in Note 37.

9. Goodwill - Group

	2007 RMB'000	**2006** RMB'000
Carrying value as at 1 January	888	-
Additions	-	888
Reversals (Note)	(888)	-
Carrying value as at 31 December	-	888

Note:
In 2006, the Group acquired the entire interest of Yizheng Chemical Fiber Changzhou Daming Company and consequently recorded a liability of RMB98,578,000 payable to Yihua Group Company, the seller, based on the accounting recorded of Yizheng Chemical Fiber Changzhou Daming Company. In July 2007, the Group agreed with Yihua Group Company that the aforementioned amount payable to Yihua Group Company should be RMB58,796,000 (a reduction of RMB39,782,000). Accordingly, the Group reduced the amount of goodwill recognised by RMB888,000 and recorded the excess amount of the fair value of net assets acquired of RMB38,894,000 as other gain during the year ended 31 December 2007.

10. Investment in an associate

	2007 RMB'000	**2006** RMB'000
Share of net assets of unlisted associate (Note (a))	43,608	-
Goodwill (Note (b))	191	-
	43,799	-

(a) Movement of share of net asset attributable to the Group for the year:

	2007 RMB'000	**2006** RMB'000
Carrying value as at 1 January	-	-
Acquisition (Note 35)	28,119	-
Capital contribution	12,311	-
Share of profit	3,178	-
Carrying value as at 31 December	43,608	-

(b) Movement of goodwill during the year:

	2007 RMB'000	**2006** RMB'000
Carrying value as at 1 January	-	-
Acquisition (Note 35)	191	-
Carrying value as at 31 December	191	-

10. Investment in an associate – Group (continued)

Impairment assessment of goodwill

Goodwill is attributable to Nantong Textile Group Co., Ltd., which is considered to be a single cash-generating unit ("CGU"). The recoverable amount of goodwill is determined based on the value-in-use calculations, using a cash flow projections based on a three-year financial budgets approved by management. Management determined financial budgets based on past performance and its expectations for the market development. The pre-tax discount rate used in the value-in-use calculation is approximately 8%, which reflect specific risks relating to Nantong Textile Group Co., Ltd..

(c) Particulars of the associate held by the Group are as follows:

Name of the associate	Place of incorporation	Issued share capital	Proportion of issued capital held by the Group	Principal activities
		RMB'000		
Nantong Textile Group Co., Ltd.	Mainland China	95,385	37%	Manufacturing and sales of top-grade textile knitting products and garments

(d) The Group's share of revenue, profit for the year, assets and liabilities of associate which are included in the consolidated income statement and balance sheet using equity method are as follows:

	2007
	RMB'000
Revenue	38,996
Profit for the year	3,178
Non-current assets	101,718
Current assets	48,150
Current liabilities	(49,583)
Non-current liabilities	(56,677)
	43,608

11. Inventories - Group

	2007	2006
	RMB'000	RMB'000
Raw materials	419,218	286,623
Work-in-progress	54,088	59,568
Finished goods	178,593	104,531
	651,899	450,722

The cost of inventories recognised as expense and included in cost of sales amounted to RMB2,819,358,000 (2006: RMB2,264,353,000).

The Group reversed an inventory provision of RMB3,781,000 in 2007 (2006: additional provision of RMB2,197,000).The amount reversed has been included in general and administrative expense.

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11. Inventories – Group (continued)

As at 31 December 2007, there were floating charges over the inventories of RMB14,604,000 (2006: RMB60,207,000) to secure certain of the Group's bank borrowings (Note 18).

12. Trade and bills receivables - Group

	2007 RMB'000	2006 RMB'000
Trade receivables	132,019	118,951
Bills receivable	237,431	112,402
	369,450	231,353
Less: provision for impairment of receivables	(4,618)	(3,901)
Trade and bills receivables – net	364,832	227,452

The fair values of trade and bills receivables are approximate to their carrying amounts.

The credit terms granted by the Group to its customers are generally within 90 days. The ageing analysis of the trade and bills receivables were as follows:

	2007 RMB'000	2006 RMB'000
0 to 30 days	287,068	176,974
31 to 90 days	38,459	31,126
91 to 180 days	32,277	15,076
181 days to 1 year	2,401	2,616
Over 1 year	9,245	5,561
	369,450	231,353

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

Included in the trade receivables were amounts due from related parties of RMB4,485,000 as at 31 December 2007 (2006: RMB4,468,000) (Note 36).

As at 31 December 2007, trade receivables of RMB358,656,000 (2006: RMB224,658,000) were fully performing. As at 31 December 2007, trade receivables of RMB10,794,000 (2006: RMB6,695,000) have the indication of impairment. The amount of the provision was RMB4,618,000 as at 31 December 2007 (2006: RMB3,901,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007 RMB'000	2006 RMB'000
91 to 180 days	3,115	932
181 days to 1 year	2,306	2,002
Over 1 year	5,373	3,761
	10,794	6,695

12. Trade and bills receivables – Group (continued)

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2007 RMB'000	**2006** RMB'000
RMB	336,898	211,617
United States dollars	32,552	19,736
	369,450	231,353

Movements on the provision for impairment of trade receivables are as follows:

	2007 RMB'000	**2006** RMB'000
At 1 January	3,901	3,277
Provision for receivable impairment	717	624
At 31 December	4,618	3,901

The creation and release of provision for impaired receivables have been included in general and administrative expenses in the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of trade and bills receivables. The Group does not hold any collateral as security.

13. Prepayments, deposits and other receivables

	Group		**Company**	
	2007 RMB'000	**2006** RMB'000	**2007** RMB'000	**2006** RMB'000
Prepayment for purchases of raw materials	63,036	75,779	-	-
Staff advances	2,584	1,564	94	307
Other receivables	2,689	7,462	6	59
Value-added tax recoverable	5,160	1,952	-	-
Prepaid expenses	1,703	4,077	608	366
Deposits	3,268	7,265	9	-
	78,440	98,099	717	732

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

14. Pledged bank deposits and cash and cash equivalents

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	10,773	14,397	-	-
Cash at bank and in hand	199,615	139,887	1,639	525
	210,388	154,284	1,639	525

The effective interest rate on pledged bank deposits was 0.7% (2006: 0.7%) per annum.

The average pledged bank deposits period for the year ended 31 December 2007 is 75 days (2006: 75 days).

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	100,160	143,858	-	4
United States dollars	105,968	9,258	6	7
Hong Kong dollars	1,902	1,062	1,633	514
Vietnam Dong	2,212	-	-	-
Others	146	106	-	-
	210,388	154,284	1,639	525

15. Share capital

	Note	Ordinary shares of HK$0.1 each	
		Number of shares '000	HK$'000
Authorised:			
At 31 December 2006 and 2007		4,000,000	400,000
Issued and fully paid:			
At 1 January 2006 and 31 December 2006		872,000	87,200
Issue of shares upon exercise of share options	16(i)	1,200	120
Issue of shares for acquisition of an associate	35	10,655	1,066
At 31 December 2007		883,855	88,386

16. Share options

(i) Pre-IPO Share Option Scheme

On 21 November 2004, the Company granted 4,342,000 options to certain senior management of the Group under a Pre-IPO Share Option Scheme to subscribe for shares in the Company at HK$0.69 per share, exercisable over the period from 9 June 2005 to 8 June 2008. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of options determined using the Black-Scholes valuation model was RMB433,000. The significant inputs into the model were share price of HK$0.69 per share at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, expected life of options of 0.5 years, expected dividend paid out rate of zero and annual risk-free interest rate of 2.88%. The volatility measured at the standard deviation of expected share price returns is based on expected share prices over the year after the Group's initial public offering.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price in HK dollar per share	Options (thousands)	Average exercise price in HK dollar per share	Options (thousands)
At 1 January	0.69	4,342	0.69	4,342
Exercised	0.69	(1,200)	-	-
At 31 December	0.69	3,142	0.69	4,342

(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 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 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 31 December 2007, no options had been granted under the Share Option Scheme (2006: Nil).

17. Other reserves

	Group						
	Share premium RMB'000	Capital reserve (i) RMB'000	Statutory reserves(ii) RMB'000	Revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	175,817	162,041	79,667	29,466	-	321,816	768,807
Issue of shares upon exercise of share options	686	-	-	-	-	-	686
Issue of shares for acquisition of an associate	12,278	-	-	-	-	-	12,278
Surplus on revaluation of buildings							
- gross (Note 7)	-	-	-	6,693	-	-	6,693
- deferred income tax (Note 19)	-	-	-	(1,748)	-	-	(1,748)
Transfer to statutory reserves	-	-	31,504	-	-	(31,504)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,043)	-	2,043	-
- deferred income tax (Note 19)	-	-	-	527	-	(527)	-
- deferred income tax in relation to the change of income tax rate (Note 19)	-	-	-	1,359	-	(1,359)	-
	188,781	162,041	111,171	34,254	-	290,469	786,716
Profit for the year	-	-	-	-	-	237,777	237,777
Dividend relating to 2006	-	-	-	-	-	(35,044)	(35,044)
Currency translation differences	-	-	-	-	(7,688)	-	(7,688)
Balance at 31 December 2007	188,781	162,041	111,171	34,254	(7,688)	493,202	981,761
Balance at 1 January 2006	175,817	162,041	58,495	31,156	-	235,963	663,472
Transfer to statutory reserves	-	-	21,172	-	-	(21,172)	-
Transfer from revaluation reserve to retained earnings							
- gross	-	-	-	(2,218)	-	2,218	-
- deferred income tax (Note 19)	-	-	-	528	-	(528)	-
	175,817	162,041	79,667	29,466	-	216,481	663,472
Profit for the year	-	-	-	-	-	190,536	190,536
Dividend relating to 2005	-	-	-	-	-	(59,296)	(59,296)
Dividend relating to 2006	-	-	-	-	-	(25,905)	(25,905)
Balance at 31 December 2006	175,817	162,041	79,667	29,466	-	321,816	768,807

17. Other reserves (continued)

	Company			
	Share premium RMB'000	Capital reserve(i) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	175,817	172,319	48,081	396,217
Issue of shares upon exercise of share options	686	-	-	686
Issue of shares for acquisition of an associate	12,278	-	-	12,278
Profit for the year	-	-	74,686	74,686
Dividend relating to 2006	-	-	(35,044)	(35,044)
Balance at 31 December 2007	188,781	172,319	87,723	448,823
Representing:				
Reserves	188,781	172,319	25,650	386,750
Proposed dividend	-	-	62,073	62,073
	188,781	172,319	87,723	448,823
Balance at 1 January 2006	175,817	172,319	61,006	409,142
Profit for the year	-	-	72,276	72,276
Dividend relating to 2005	-	-	(59,296)	(59,296)
Dividend relating to 2006	-	-	(25,905)	(25,905)
Balance at 31 December 2006	175,817	172,319	48,081	396,217
Representing:				
Reserves	175,817	172,319	13,037	361,173
Proposed dividend	-	-	35,044	35,044
	175,817	172,319	48,081	396,217

Notes:

(i) Capital reserve represents the difference between the amount of share capital issued and the net asset value of the subsidiaries acquired.

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

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

18. Borrowings

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
-unsecured bank borrowings	32,753	13,507	-	-
-secured bank borrowings (Note (a))	31,500	61,500	-	-
-other bank borrowings (Note (b))	161,000	233,531	-	-
	225,253	308,538	-	-
Non-current				
-unsecured bank borrowings (Note (c))	486,752	64,428	398,141	-
-other bank borrowings (Note (b))	34,000	140,030	-	-
-notes payable (Note (d))	181,832	-	181,832	-
	702,584	204,458	579,973	-
Total borrowings	927,837	512,996	579,973	-

Notes:

(a) Bank borrowings of RMB31,500,000 (2006: RMB61,500,000) were secured by the followings:

(i) pledge of the Group's land use rights with a net book amount of approximately RMB4,704,000 as at 31 December 2007 (2006: RMB32,245,000) (Note 6);

(ii) pledge of the Group's property, plant and equipment with a net book amount of approximately RMB46,007,000 as at 31 December 2007 (2006: RMB17,814,000) (Note 7);

(iii) floating charges over the Group's inventories with a net book amount of RMB14,604,000 as at 31 December 2007 (2006: RMB60,207,000) (Note 11);

(b) Other bank borrowings were secured by cross corporate guarantees provided by certain subsidiaries totalling of RMB195,000,000 as at 31 December 2007 (2006: RMB373,561,000).

(c) Mr. Hong Tianzhu, chairman and an executive director, has undertaken to maintain at least 30% equity interest in the Company unless otherwise agreed by the relevant bank in respect of the provision of the unsecured non-current bank borrowings.

(d) Notes payable represents US$25 million guaranteed notes, maturing in 2012. The notes payable bears interest at 6.8% in the first year after drawdown and at floating rate with reference to Deutsche Bank Municipal Forward Rate Bias Index from second year after drawn down till maturity.

18. Borrowings (continued)

At 31 December 2007, the Group's borrowings were repayable as follows:

	Group				Company			
	Bank borrowings		Notes payable		Bank borrowings		Notes payable	
	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	225,253	308,538	-	-	-	-	-	-
Between 1 and 2 years	179,292	6,560	-	-	132,714	-	-	-
Between 2 and 5 years	341,460	197,898	181,832	-	265,427	-	181,832	-
	746,005	512,996	181,832	-	398,141	-	181,832	-

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	226,500	236,000	-	-
United States dollars	701,337	276,996	579,973	-
	927,837	512,996	579,973	-

The effective interest rates (per annum) at the balance sheet date were as follows:

	2007		2006	
	USD	RMB	USD	RMB
Bank borrowings	6.71%	6.41%	7.90%	5.83%
Notes payable	6.80%	-	-	-

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	520,752	204,458	518,294	207,329
Notes payable	181,832	-	176,166	-
	702,584	204,458	694,460	207,329

The fair values of current borrowings approximately their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowings rate of 7.29% (2006: 6.48%).

18. Borrowings (continued)

The Group has the following undrawn borrowing facilities:

	2007 RMB'000	2006 RMB'000
Floating rate		
- expiring within one year	225,318	-
- expiring beyond one year	229,876	109,322
	455,194	109,322

19. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007 RMB'000	2006 RMB'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	(670)	(758)
- Deferred tax assets to be recovered within 12 months	(2,937)	(3,121)
	(3,607)	(3,879)
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	11,078	11,216
Deferred tax liabilities - net	7,471	7,337

The gross movement in deferred income tax account is as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	7,337	8,316
Income statement charged/(credited) (Note 27)	272	(451)
Credited to income statement then transferred to equity (Notes 17 and 27)	(1,886)	(528)
Taxation charged to equity in relation to the revaluation of buildings (Note17)	1,748	-
At 31 December	7,471	7,337

19. Deferred income tax (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Tax losses RMB'000	Temporary differences in respect of provisions and accruals RMB'000	Total RMB'000
At 1 January 2006	1,208	2,220	3,428
(Charged)/Credited to the consolidated income statement (Note 27)	(450)	901	451
At 31 December 2006 and 1 January 2007	758	3,121	3,879
Charged to the consolidated income statement (Note 27)	(88)	(184)	(272)
At 31 December 2007	670	2,937	3,607

Deferred income tax liabilities:

	Revaluation of buildings RMB'000
At 1 January 2006	11,744
Credited to the consolidated income statement (Note 27)	(528)
At 31 December 2006 and 1 January 2007	11,216
Taxation charged to equity in relation to the revaluation of buildings (Note 17)	1,748
Credited to the consolidated income statement (Note 27)	(527)
Credited to the consolidated income statement resulted from the change of income tax rate (Note 27)	(1,359)
At 31 December 2007	11,078

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB317,000 (2006: RMB89,000) in respect of losses amounting to RMB3,171,000 (2006: RMB372,000) that can be carried forward against future taxable income. The deferred tax benefit of such tax losses was not recognised as it was not probable that future taxable profit will be available against which the tax losses can be utilised.

Deferred income tax of RMB527,000 (2006: RMB528,000) was transferred from other reserves (Note 17) to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

20. Trade and bills payables - Group

	2007 RMB'000	**2006** RMB'000
Trade payables	152,662	187,899
Bills payable	314,840	82,650
	467,502	270,549

Included in the trade payables were amounts due to related parties of RMB1,366,000 as at 31 December 2007 (2006: Nil) (Note 36).

At 31 December 2007, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) were as follows:

	2007 RMB'000	**2006** RMB'000
0 to 90 days	272,557	237,460
91 to 180 days	187,261	28,275
181 days to 1 year	3,671	3,076
Over 1 year	4,013	1,738
	467,502	270,549

Trade and bills payables are denominated in the following currencies:

	2007 RMB'000	**2006** RMB'000
RMB	453,793	228,399
United States dollars	9,475	42,150
Vietnam Dong	4,234	-
	467,502	270,549

21. Accruals and other payables

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued wages and salaries	38,756	18,991	200	-
Interest payable	15,184	813	14,436	-
Other accrual of expenses	21,176	9,494	2,832	2,768
Deposits from customers	14,013	12,841	-	-
Other deposits	5,185	8,034	-	-
Payables for purchase of property, plant and equipment	26,375	15,608	-	-
Payable to former principal shareholder of a subsidiary resulting from an acquisition	-	67,578	-	-
Other payables	33,452	32,044	-	-
Tax payables other than enterprise income tax	1,496	6,383	-	-
	155,637	171,786	17,468	2,768

Included in deposits from customers were amounts due to related parties of RMB549,000 as at 31 December 2006 (Note 36).

22. Sales

The Group is principally engaged in the manufacturing and sale of yarn, grey fabrics and dyed fabrics. Sales recognised during the year represented sales of goods, net of value-added tax.

23. Other income and other gains/(losses), net

	2007 RMB'000	**2006** RMB'000
Other income		
Return of income tax relating to re-investment	3,265	-
Subsidy income	18,408	17,365
	21,673	17,365
Other gains/(losses) - net		
Net foreign exchange loss (Note 28)	(3,813)	(2,947)
Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary (Note 9)	38,894	-
Others	8,028	1,191
Total other gains/(losses) -net	43,109	(1,756)

24. Expenses by nature

	2007 RMB'000	**2006** RMB'000
Changes in inventories of finished goods and work in progress	(68,582)	(35,801)
Raw materials and consumables used	2,440,525	1,971,964
Employment costs (Note 25)	276,040	203,065
Depreciation and amortisation (Notes 6 and 7)	73,609	57,670
Office expense	30,206	30,095
Utilities	167,565	125,543
Transportation	57,265	41,776
Auditor's remuneration	3,820	3,516
Lease rental expense of buildings and machinery (Note 7)	8,634	3,960
Other expenses	50,517	38,231
Total cost of sales, selling and distribution costs and general and administrative expenses	3,039,599	2,440,019

25. Employment costs

	2007 RMB'000	**2006** RMB'000
Wages, salaries and bonuses	240,779	172,447
Pension costs – defined contribution plans (Note (a))	15,884	13,883
Other welfare benefits (Note (b))	7,552	6,518
Other employment benefits	11,825	10,217
	276,040	203,065

25. Employment costs (continued)

Notes:

(a) Pension – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in Mainland China. The Group and the eligible employees are required to contribute 12% to 22% and 7% to 8%, respectively, of the employees' basic salary at rates as stipulated by the relevant municipal governments. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. For the year ended 31 December 2007, the Group contributed approximately RMB15,808,000 (2006: RMB13,807,000) to the aforesaid state-sponsored retirement plans. As at 31 December 2007, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions (2006: Nil).

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident fund legislation, and both the Group and the employees' contributions are subject to a cap of HK$1,000 per month. For the year ended 31 December 2007, the Group contributed approximately RMB76,000 (2006: RMB76,000) to the MPF Scheme.

(b) Other welfare benefits

All of the Group's employees in Mainland China participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by governmental authorities. For the year ended 31 December 2007, the Group contributed approximately RMB7,552,000 (2006: RMB6,518,000) to these plans.

(c) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2007 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	-	-	905	18	923
Zhu Yongxiang	-	720	800	12	18	1,550
Gong Zhao	-	382	400	12	18	812
Tang Daoping	-	360	720	12	18	1,110
Independent non-executive directors						
Ting Leung Huel, Stephen	160	-	-	-	-	160
Cheng Longdi	69	-	-	-	-	69
Zhu Lanfen	69	-	-	-	-	69
	298	1,462	1,920	941	72	4,693

25. Employment costs (continued)

(c) Directors' and senior management's emoluments (continued)

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Executive directors						
Hong Tianzhu	-	666	-	307	18	991
Zhu Yongxiang	-	720	480	12	18	1,230
Gong Zhao	-	382	340	12	18	752
Tang Daoping	-	360	600	12	18	990
Independent non-executive directors						
Ting Leung Huel, Stephen	172	-	-	-	-	172
Cheng Longdi	74	-	-	-	-	74
Zhu Lanfen	74	-	-	-	-	74
	320	2,128	1,420	343	72	4,283

(i) Other benefits represent housing allowance and other social security benefits. Those social security benefits mainly include medical and unemployment insurances and are organised and administered by governmental authorities in Mainland China. Contributions to the plans are expensed as incurred.

None of the directors waived any emoluments during the year ended 31 December 2007 (2006: Nil).

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: one) individual are as follows:

	2007 RMB'000	**2006** RMB'000
Basic salaries and allowances	892	100
Bonuses	200	939
Pension cost – Defined contribution plan	11	12
	1,103	1,051

26. Finance income and costs

	2007 RMB'000	2006 RMB'000
Interest expense - bank borrowings wholly repayable within five years	60,282	40,235
Less: amount capitalised in property, plant and equipment (Note 7)	(2,524)	(1,784)
	57,758	38,451
Exchange gain on financing activities (Note 28)	(34,301)	(6,008)
Finance costs	23,457	32,443
Finance income – Interest income on short-term bank deposits	(3,594)	(4,431)
Net finance costs	19,863	28,012

27. Income tax expense

The amount of taxation charged to the consolidation income statement represents:

	2007 RMB'000	2006 RMB'000
Current income tax		
- Mainland China enterprise income tax	26,444	25,237
Deferred income tax (Note 19)	(1,614)	(979)
	24,830	24,258

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2006: Nil).

(ii) Mainland China enterprise income tax ("EIT")

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 15% to 33% during the year.

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries of the Company established in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of 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.

Texhong (China) Investment Co., Ltd., being an investment holding company incorporated in Mainland China, it is subject to Mainland China enterprise income tax rate of 15%.

27. Income tax expense (continued)

(ii) Mainland China enterprise income tax ("EIT") (continued)

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law") on 16 March 2007 and the State Council has announced the Detail Implementation Regulations ("DIR") on 6 December 2007, which will be effective from 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. However, for enterprises which were established before the publication of the new CIT Law and were entitled to preferential treatments of reduced CIT tax rate granted by relevant tax authorities, the new CIT rate may be gradually increased to 25% within 5 years after the effective date of the new CIT Law. For the region that enjoys a reduced CIT rate at 15%, will gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

(iii) Overseas income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax. The Company's 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. No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the year. The Company's subsidiary established Vietnam is loss- making in 2007, therefore they was not subject to Vietnam income tax in 2007.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007 RMB'000	**2006** RMB'000
Profit before income tax	262,607	214,794
Tax calculated at domestic tax rates applicable to profits in the respective countries	74,875	67,933
Effect of tax exemption/reduction	(50,795)	(42,326)
Expenses not deductible for tax purposes	1,881	5,378
Tax losses for which no deferred income tax asset was recognised	317	89
Utilisation of previously unrecognised tax losses	(89)	-
Change of income tax rate in respect of deferred taxes	(1,359)	-
Income tax credit granted for qualified purchases of domestic equipment	-	(6,816)
	24,830	24,258

The weighted average applicable tax rate was 29% (2006: 32%).

28. Net foreign exchange losses

The exchange differences (charged)/credited in the income statement are included as follows:

	2007 RMB'000	**2006** RMB'000
Other gains/(losses) - net (Note 23)	(3,813)	(2,947)
Finance costs (Note 26)	34,301	6,008
	30,488	3,061

29. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB74,686,000 (2006: RMB72,276,000).

30. Earning per share

(a) 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 year.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	237,777	190,536
Weighted average number of ordinary shares in issue (thousands)	874,842	872,000
Basic earnings per share (RMB per share)	0.27	0.22

(b) Diluted
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. For the share options, a calculation is made in order 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.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	237,777	190,536
Weighted average number of ordinary shares in issue (thousands)	874,842	872,000
Adjustments for share options (thousands)	1,572	2,470
Weighted average number of ordinary shares for diluted earnings per share (thousands)	876,414	874,470
Diluted earnings per share (RMB per share)	0.27	0.22

31. Dividends

The dividends paid in 2007 and 2006 were RMB35,044,000 (HK dollar of 0.04 per share) and RMB85,201,000 (HK dollar of 0.095 per share) respectively. The directors recommend the payment of a final dividend of HK$0.075 per ordinary share, totalling RMB62,073,000. Such dividend is to be approved by the shareholders at the upcoming Annual General Meeting. These financial statements do not reflect this dividend payable.

	2007 RMB'000	**2006** RMB'000
Interim dividend paid of nil (2006: HKD0.03) per ordinary share	-	25,905
Proposed final dividend of HKD0.075 (2006: HKD0.04) per ordinary share	62,073	35,044
	62,073	60,949

32. Cash generated from operations

	2007 RMB'000	**2006** RMB'000
Profit before income tax	262,607	214,794
Adjustments for:		
– Amortisation	1,070	895
– Depreciation	72,539	56,775
– Share of profit from an associate	(3,178)	-
– Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary	(38,894)	-
– Loss on disposal of property, plant and equipment (see below)	312	849
– Finance costs – net	19,863	28,012
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	(201,177)	(151,433)
– Trade and bills receivables	(137,380)	(61,120)
– Prepayments, deposits and other receivables	19,659	(45,731)
– Trade and bills payables	196,953	91,714
– Accruals and other payables	(1,505)	(34,869)
Cash generated from operations	190,869	99,886

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2007 RMB'000	**2006** RMB'000
Net book amount (Note 7)	10,280	2,720
Loss on disposal of property, plant and equipment	(312)	(849)
Proceeds from disposal of property, plant and equipment	9,968	1,871

33. Contingencies - Group

The Group had contingent liabilities not provided for as follows:

	Group	
	2007	**2006**
	RMB'000	RMB'000
Government grants obtained from the Management Committee of Taizhou Economic Develop Zone	21,889	21,889

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.

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

34. Commitments

(i) Capital commitments

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

	2007	**2006**
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	220,514	75,513
Authorised but not contracted for	39,605	207,178
	260,119	282,691

34. Commitments (continued)

(ii) Lease commitments

The Group leases various land, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

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

	2007 RMB'000	2006 RMB'000
No later than 1 year	7,954	2,552
Later than 1 year and no later than 5 years	14,387	9,089
Later than 5 years	77,150	79,024
	99,491	90,665

35. Business combination

During the year, Texhong Textile Nantong Limited, a wholly-owned subsidiary of the Company, acquired 37% equity interest of Nantong Textile Group Co., Ltd. ("Nantong Textile") from Hong Kong Tin Hong Industrial Limited, a company controlled by Mr. Hong Tianzhu, an executive Director and Chairman of the Group. The consideration was satisfied by the issue of 10,655,173 of the Company's shares with a quoted market value of RMB13,310,000 at the completion date and the payment of RMB15,000,000 in cash.

Details of share of net assets of the associate acquired and goodwill are as follows:

	2007 RMB'000
Purchase consideration paid in cash	15,000
Shares issued	13,310
Total purchase consideration	28,310
Fair value of share of net assets acquired – shown as below	(28,119)
Goodwill	191

35. Business combination (continued)

The share of net assets arising from the acquisition is analysed as follows:

	Carrying amount RMB'000	Fair value RMB'000
Non-current assets	255,724	259,912
Current assets	119,460	119,460
Non current liabilities	(153,180)	(153,180)
Current liabilities	(150,197)	(150,197)
Net assets	71,807	75,995
Interest acquired		37%
Share of net assets acquired		28,119

36. Related-party transactions

New Green Group Limited (incorporated in the British Virgin Islands) owns 44.5% of the Company's shares. Mr. Hong Tianzhu is the principal shareholder of New Green Group Limited, and has a beneficial shareholding of 54.5% in the Company through his own capacity, New Green Group Limited and another company. Mr. Zhu Yongxiang has a beneficial shareholding of 17.5% in the Company. The remaining shares are widely held.

The Company's directors and the Group's management are of the view that the following companies/individuals are related parties of the Group:

Name of related party	**Relationship with the Group**
Hong Tianzhu	Director
New Green Group Limited	Shareholder
Hong Kong Tin Hong Industrial Limited	Controlled by Hong Tianzhu, a director
Nantong Shuanghong Textile Co., Ltd.	Controlled by Hong Tianzhu, a director
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	Controlled by Hongkong Tinhong Industrial Co., Ltd., a company controlled by Hong Tianzhu, a director
Nantong Textile Group Co., Ltd.	Associate company of Texhong Textile Nantong Investment Limited, a subsidiary of the Company

The Group had the following significant transactions with its related parties, as follows

(a) Sales of goods

	2007 RMB'000	**2006** RMB'000
Sales of goods:		
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	28	499
- Nantong Textile Group Co., Ltd.	4,185	140
	4,213	639

36. Related-party transactions (continued)

(b) Purchases of goods

	2007 RMB'000	2006 RMB'000
Purchases of goods		
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	681	2,973
- Nantong Textile Group Co., Ltd.	2,841	1,564
	3,522	4,537

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

(c) Balance with related parties

The Group had the following significant balances with related parties

	2007 RMB'000	2006 RMB'000
Trade receivables from related parties (Note 12)		
- Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	3,967	4,327
- Nantong Textile Group Co., Ltd.	518	141
	4,485	4,468
Trade payables to a related party (Note 20)		
- Nantong Textile Group Co., Ltd.	1,366	-
Deposits from a related party (Note 21)		
- Nantong Textile Group Co., Ltd.	-	549

The balances with related parties are unsecured, non-interest bearing and are repayable within one year.

(d) Acquisition of an associate from related company

On 11 July 2007, Texhong Textile Nantong Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement to acquire 37% equity interest of Nantong Textile Group Co., Ltd. from Hong Kong Tin Hong Industrial Limited, a company controlled by Mr. Hong Tianzhu, an executive Director and Chairman of the Group. For details of the acquisition, please refer to Note 35 of the financial statements.

(e) Key management compensation

	2007 RMB'000	2006 RMB'000
Salaries, wages and bonuses	6,137	4,898
Pension cost (defined contribution plan)	122	131
Other employment benefits	1,050	295
	7,309	5,324

37. Particulars of subsidiaries

The following is a list of the significant subsidiaries at 31 December 2007:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest	Note
Directly held-					
Texhong Textile Holdings Limited	British Virgin Islands 26 May 2004 limited liability company	Investment holding in British Virgin Islands	100 ordinary shares of USD1 each	100%	
Texhong Textile Investment Limited	British Virgin Islands 9 December 2004 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%	
Sunray International Holdings Limited	British Virgin Islands 21 January 2005 limited liability company	Investment holding in British Virgin Islands	1 ordinary share of USD1	100%	
Texhong Vietnam Investment Limited	British Virgin Islands, 6 Sep 2006 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%	
Indirectly held-					
Texhong Textile (Taizhou) Co., Ltd.	Tai Zhou, Mainland China, 20 October 1997,limited liability company	Manufacturing and sales of yarns and grey fabrics in Mainland China	USD193,750	100%	(i)
Texhong Textile (Suining) Co., Ltd.	Xuzhou, Mainland China,26 June 1998, limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress in Mainland China	USD187,500	100%	(i)
Taizhou Texhong Weaving Co., Ltd.	Taizhou, Mainland China, 15 January 2000,limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD2,625,000	100%	(i)
Zhejiang Texhong Textile Co., Ltd.	Jinhua, Mainland China, 18 May 2000 limited liability company	Manufacturing and sales of industrial -use textile products, top-grade grey fabrics and blended-spinning in Mainland China	USD6,350,000	100%	(i)

37. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest	Note
Jiangsu Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 6 June 2000 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress; processing of cotton in Mainland China	USD10,200,000	100%	(i)
Taizhou Century Texhong Textile Co., Ltd.	Taizhou, Mainland China, 23 April 2002 limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning in Mainland China	USD13,000,000	100%	(i)
Nantong Century Texhong Textile Co., Ltd.	Nantong, Mainland China, 7 June 2002 limited liability company	Manufacturing and sales of yarns, grey fabrics and dyed fabrics in Mainland China	USD3,850,000	100%	(i)
Xuzhou Century Texhong Textile Co., Ltd.	Xuzhou, Mainland China, 13 January 2003, limited liability company	Manufacturing and sales of top-grade yarns and cloth spinning in Mainland China	USD625,000	100%	(i)
Xuzhou Texhong Yinfeng Textile Co., Ltd.	Xuzhou, Mainland China, 12 May 2004 limited liability company	Manufacturing and sales of yarns, grey fabrics, cloth and dyed fabrics in Mainland China	USD4,200,000	100%	(i)
Nantong Texhong Yinhai Industrial Co., Ltd.	Nantong, Mainland China, 20 May 2004 limited liability company	Manufacturing and sales of garment, textile knitting products and yarns in Mainland China	USD3,500,000	100%	(i)
Xuzhou Texhong Times Textile Co., Ltd.	Xuzhou, Mainland China, 29 December 2004, limited liability company	Manufacturing and sales of top-grade yarns, thread, grey fabrics, textile knitting products, and garments in Mainland China	USD15,000,000	100%	(i)
Texhong (China) Investment Co., Ltd.	Shanghai, Mainland China, 21 June 2005 Limited liability company	Investment holding and trading of textile products in Mainland China	USD30,000,000	100%	(i)

37. Particulars of subsidiaries (continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital or paid-in capital	Interest	Note
Xuzhou Texhong Yinlian Textile Co., Ltd.	Xuzhou, Mainland China, 30 March 2006 limited liability company	manufacturing top-grade yarns, thread, grey fabrics, dresses, in Mainland China	USD12,500,000	100%	(i)
Taizhou Texhong Yintai Textile Co., Ltd.	Taizhou, Mainland China, 26 May 2006 Limited liability company	Manufacturing top-grade garment and special textile for construction in Mainland China	USD6,500,000	100%	(i)
Sunray Macao Commercial Offshore Limited.	Macao, 19 December 2005 limited liability company	Trading in Macao	MOP$100,000	100%	
Texhong Textile (Hong Kong) Limited.	Hong Kong, 11 May 2006 limited liability company	Investment holding in Hong Kong	10,000 ordinary share of HKD1	100%	
Changzhou Texhong Textile Co., Ltd.	Changzhou, Mainland China 1 January 1979 limited liability company	Manufacturing and sales of textile, decoration and garment in Mainland China	RMB32,145,000	100%	(i)
Sunray Trading (Hong Kong) Limited	Hong Kong, 16 February 2005 Limited liability company	Trading, investment and corporate services in Hong Kong	10,000 ordinary shares of HKD1	100%	
Texhong Vietnam Textile Joint Stock Company (formerly known as Texhong (Vietnam) Textile Limited)	Vietnam, 24 October 2006 limited liability company	Manufacturing of yarn in Vietnam	USD16,000,000	100%	
Texhong Textile Nantong Ltd.	British Virgin Islands, 14 March 2007 limited liability company	Investment holding in British Virgin Islands	USD50,000	100%	
Texhong Textile Nantong Investment Limited	Hong Kong, 6 November 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%	
Texhong Textile (Hong Kong) Holdings Limited	Hong Kong, 24 October 2007 limited liability company	Investment holding in Hong Kong	HKD100	100%	

Note:

All subsidiaries are wholly owned foreign enterprises incorporated in Mainland China.