

Chairman's Statement



On behalf of the board of directors (the "Board"), I am pleased to present to our shareholders the Company's first annual report upon its listing on the Main Board of HKSE.

2004 was a remarkable year for the Group. Leveraging on its consolidated business foundation, the Group was successfully listed on the Main Board of the HKSE on 9 December 2004, representing its investors', customers' and suppliers' recognitions of the Group's prominent strengths. The successful listing not only enhanced the Group's corporate profile, but also expedited its internationalization and strengthened its corporate governance structure and shareholding structure, establishing a solid foundation for efficient business operations.

RESULTS

During the year under review, the Group's performance was encouraging. The Group experienced substantial growth with turnover and net profit reaching new heights. For the fiscal year ended 31 December 2004, turnover amounted to RMB1,415.9 million, representing an increase of 36.9% when compared with that of RMB1,034.3 million for the previous year. Profit attributable to shareholders amounted to RMB136.7 million, representing a substantial growth of 61.1% when compared with the previous year, and surpassing the profit forecast of not less than RMB130 million made in the prospectus ("Prospectus") of the Company dated 30 November 2004. Basic earnings per share and diluted earnings per share for the fiscal year ended 31 December 2004 were both RMB0.19.

In 2004, the Group proactively optimized its product mix and increased the production proportion of its high value-added spandex stretch yarns and spandex stretch grey fabrics. As such, the Group's gross profit margin and net profit margin increased to 16.2% and 9.7% respectively (2003: 15.1% and 8.2% respectively).

DIVIDEND

As stated in the Prospectus, the Board does not recommend the payment of any final dividend for the year ended 31 December 2004.

BUSINESS REVIEW

In line with our development strategy, the Group acquired the assets of Feng County Textile Factory, an independent third party which was put into liquidation, and the business of Nantong Shuanghong Textile Company Limited ("Nantong Shuanghong") from a related party at a relatively low cost of approximately RMB28 million and RMB6.8 million respectively during the year under review, the production facilities of which were soon put into operation after modification. The Group also actively increased the production capacity of its existing production base. During the year under review, additional spindles were added in the production base in Xuzhou, Jiangsu Province, the People's Republic of China (the "PRC"). Through acquisitions and organic expansion, the Group's yarns production facilities increased to 203,324 spindles in 2004, representing an increase of about 75% as compared to 2003.

Leveraging on its extensive experience in the production of spandex stretch yarns and spandex stretch grey fabrics, the Group successfully increased the manufacture and sale of spandex stretch yarns and spandex stretch grey fabrics in 2004. Sales volume of spandex stretch yarns and spandex stretch grey fabrics surged by about 51.5% and 15.4% respectively when compared with the previous year.

In 2004, the Group proactively participated in product development to expand its product portfolio, strengthened its competitive edges and enhanced its overall gross profit. In addition, the Group endeavored to expand its sales networks during the year, of which its domestic sales network spanned across 17 provinces and cities in the PRC and its overseas sales network was extended to Europe, North America, Bangladesh, Hong Kong and South Korea.



FUTURE OUTLOOK

The Board believes that the sustainable growth of the PRC's economy and the abolition of the textile quota system on 1 January 2005 will enhance the competitiveness of the PRC textile enterprises in overseas markets and will attract numerous overseas downstream textile manufacturers to further increase their investments in the PRC, contributing to immense business opportunities for the PRC's upstream textile industry. In the face of the enormous market potential, the Group, as one of the largest cotton textile manufacturers and an upstream textile enterprise in the PRC, is confident of its business development and fruitful future returns.

Although copious amounts of business opportunities arose, the PRC textile manufacturers also encountered tremendous challenges, especially competition from Indian and Pakistani textile manufacturers. Nevertheless, the PRC's textile industry enjoys relatively comprehensive upstream and downstream business chain production ancillary facilities and the competitive edges in transportation and customer services within the PRC. Together with the increasing domestic and overseas demand, all of these factors create a favourable market environment for the Group's long-term development. The Group endeavors to maintain product quality, to actively develop new products with distinguished quality and to enhance customer services, so as to further consolidate the Group's leading edges.

With the increasing market demand in response to the widening range of applications of high value-added spandex stretch textile products, the Group will maintain its robust growth momentum by continuous establishment of production facilities through low cost acquisitions and organic expansion. The additional spindles, which were added in early 2005 through the leasing of the plants of Jiangsu Yinyu Sanlian Group Limited and the organic expansion of the production facilities of Xuzhou Texhong Yinfeng Textile Co., Ltd., are expected to commence full operations by the end of May 2005. By then, the Group's production facilities of yarns will reach approximately 300,000 spindles. Meanwhile, the

Group commenced construction of a new factory equipped with 100,000 spindles in Suining County, Xuzhou, Jiangsu Province, the PRC, which is expected to start full operation in the fourth quarter of 2005. Capitalizing on the abovementioned measures for production capacity expansion, the Group expects that the production facilities of yarns will increase to approximately 400,000 spindles in the fourth quarter of 2005, representing a growth of 100% when compared to 2004. Furthermore, the Group increased the production facilities of grey fabrics from 638 air-jet looms at the end of 2004 to 722 air-jet looms through leasing of the plants from Jiangsu Yinyu Sanlian Group Limited in early 2005.

In order to maintain its leading position in the spandex stretch textile market and to cater for ever-changing customer needs, the Group will continue to enhance its product portfolio and cooperate with its suppliers and customers in developing more high value-added yarns and fabrics. At the same time, the Group will strengthen its marketing and sales capabilities and will actively promote its quality textile products in the PRC and overseas markets.

The Group is committed to maintaining sustainable growth in turnover and profit, persistently enhancing its corporate governance and operating capabilities, and integrating external and internal strengths to maximize the returns to shareholders of the Company.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my heartfelt gratitude to all the shareholders for their continuous support. Also, I would like to take this opportunity to thank all the staff members of the Group for their dedication and contribution to the Group during the year.

Hong Tianzhu
Chairman

Hong Kong
31 March 2005