

The Directors of the Company submit their report together with the audited accounts of the Company for the year ended 31 December 2004.

GROUP REORGANISATION

The Company was incorporated on 12 July 2004 as an exempted company with limited liability in the Cayman Islands. On 27 July 2004, an aggregate of 1,000,000 shares ("Shares", each a "Share") of HK\$0.10 each in the share capital of the Company were allotted and issued nil paid, as to 999,999 Shares to New Green Group Limited; and as to the remaining one Share to Codan Trust Company (Cayman) Limited, which was transferred to New Green Group Limited on the same date.

In preparation for the listing of the Shares on the Main Board of the HKSE, the Company and its subsidiaries (the "Group") underwent reorganisation of its structure. The reorganisation involved the transfer to the Company by New Green Group Limited an aggregate of 100 shares with par value of US\$1 each, being the entire issued share capital of Texhong Textile Holdings Limited, the intermediate holding company of the Group incorporated in the British Virgin Islands on 26 May 2004, in consideration and in exchange of for which, the Company (i) allotted and issued, credited as fully paid, an aggregate of 1,000,000 new Shares, as to 200,000 Shares to New Green Group Limited and as to 500,000, 260,000 and 40,000 Shares to Trade Partner Investments Limited, Wisdom Grace Investments Limited and Flourish City Investments Limited, respectively, as directed by New Green Group Limited; and (ii) credited as fully paid at part the 1,000,000 nil-paid Shares then held by New Green Group Limited. Upon completion of the reorganisation, the Company became the holding company of the Group. Please refer to the Prospectus for details of the aforesaid reorganisation.

The Shares of the Company have been listed on the Main Board of the HKSE since 9 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of yarns, grey fabrics and garment fabrics. The principal activities of each of the subsidiaries of the Company are set out in note 33 to the accompanying financial statements.

No segment information by business segment is presented as the Group operates in one business and geographical segment - manufacture and sale of yarns, grey fabrics and garment fabrics. No geographical analysis of assets, liabilities and capital expenditures is presented as substantially all of the Group's assets, liabilities and capital expenditures were located in Mainland China.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 42 of this annual report.

The Board does not recommend the payment of any dividend by the Company in respect of the year ended 31 December 2004.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2004 are set out in note 26 to the accompanying financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year ended 31 December 2004 are set out in note 14 to the accompanying financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the accompanying financial statements.

USE OF PROCEEDS

The Company had issued an aggregate of 174,400,000 new Shares by way of public offer and placing (the "New Issue") for subscriptions at a price of HK\$1.15 per Share in December 2004. The net proceeds from the New Issue amounted to approximately RMB194 million. For the year ended 31 December 2004, approximately RMB17 million and RMB10 million had been used as for working capital purpose and for the funding required for the expansion of yarn production capacity respectively. The remaining balance of approximately RMB167 million had been placed as short-term deposits with licensed banks in Hong Kong and is expected to be applied as disclosed in the Prospectus as follows:

- as to approximately RMB145 million for the expansion of the Group's yarn production operations;
- as to approximately RMB18 million for the installation of a management information system;
- as to approximately RMB2 million for enhancing the Group's product development capability; and
- as to approximately RMB2 million for general working capital of the Group.

The actual and intended applications of the net proceeds referred to above are consistent with the plans as set out in the Prospectus.

DISTRIBUTABLE RESERVES

The Company did not have distributable reserves as at 31st December 2004.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 2 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period from the Listing Date to 31 December 2004, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

SHARE OPTIONS

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

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

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

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

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

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the issued share capital of the Company for the time being ("Individual Limit").

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

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

SHARE OPTIONS *(Continued)*

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

As at 31 December 2004, no option has been granted under the Share Option Scheme.

Another share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution of all the then shareholders of the Company passed on 21 November 2004 for the primary purpose of recognising and rewarding the contribution of certain directors, senior management, employees, consultants and advisers of the Group to the growth and development of the Group and the listing of the Shares on the HKSE.

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

- (i) the classes of eligible participants are different from that of the Share Option Scheme;
- (ii) the General Scheme Limit, the Individual Limit and the restrictions on grant of options to a connected person do not apply;
- (iii) the rules of the Pre-IPO Share Option Scheme were adopted unconditionally but the exercise of any option is conditional on the HKSE granting listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme on or before 30 days after the date of the Prospectus, failing which such options granted and the Pre-IPO Share Option Scheme shall forthwith lapse; and
- (iv) the Directors may only grant options under the Pre-IPO Share Option at any time with a period commencing from 21 November 2004 and ending on 9:00 a.m. on the Listing Date.

As at 31 December 2004, the number of Shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 4,342,000, representing approximately 0.498% of the Shares of the Company in issue at that date. The Directors confirm that, save as disclosed below, no further option has been or will be granted under the Pre-IPO Share Option Scheme.

SHARE OPTIONS (Continued)

Details of the outstanding share options as at 31 December 2004 which have been granted under the Pre-IPO Share Option Scheme are as follows:

	Date of grant	Number of option shares		Outstanding at 31 December 2004	Exercise price HK\$	Exercisable period (Note)
		Granted during the year	Exercised during the year			
Mr. Zhang Chuanmin	21 November 2004	1,200,000	–	1,200,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Mr. Sha Tao	21 November 2004	1,158,000	–	1,158,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Mr. Hu Zhiping	21 November 2004	1,158,000	–	1,158,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Mr. Yin Jianhua	21 November 2004	826,000	–	826,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Total		4,342,000	–	4,342,000		

Note: During the first one year and the first two years of the exercise period, each grantee may not exercise his option exceeding one-third and two-thirds respectively of the total number of underlying Shares in respect of the options granted to him.

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

DIRECTORS

The Directors during the year were:

Mr. Hong Tianzhu	(appointed on 27 July 2004)
Mr. Zhu Yongxiang	(appointed on 27 July 2004)
Mr. Tang Daoping	(appointed on 21 November 2004)
Mr. Gong Zhao	(appointed on 21 November 2004)
Mr. Ting Leung Huel, Stephen*	(appointed on 21 November 2004)
Ms. Zhu Lanfen*	(appointed on 21 November 2004)
Mr. Cheng Longdi*	(appointed on 21 November 2004)

* *Independent non-executive Directors*

In accordance with article 180(A) of the Company's articles of association, Mr. Tang Daoping and Mr. Gong Zhao will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi are independent non-executive directors and were appointed for an initial term of one year commencing from 21 November 2004 renewable automatically for a successive term of one year each commencing from the next day after the expiry of the then current term, unless terminated by not less than three months' notice in writing at the end of the initial term or at any time thereafter.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his/her independence and the Company considers that each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report and other than in connection with the Group's reorganisation in preparation for the listing of the Shares on the Main Board of the Stock Exchange, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, the controlling shareholder of the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of the emoluments of the Directors on a named basis during the year under review are set out in note 12(a) to the accompanying financial statements.

Details of the five highest paid individuals during the year under review are set out in note 12(b) to the accompanying financial statements.

REMUNERATION POLICY

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the Directors). The remuneration policy and remuneration packages of the Executive Directors and member of the senior management of the Group are reviewed by the Remuneration Committee, which are detailed in the paragraph headed "Remuneration Committee" under the section headed "Corporate Governance Report" of this report.

RETIREMENT BENEFIT SCHEMES

Particulars of the Group's retirement benefit schemes are set out in note 11 to the accompanying financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management as at the date of this annual report are set out on pages 21 to 23 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2004, the interests and short positions of each Director and chief executive in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

Ordinary Shares of the Company:

Name of directors of the Company	Number of Shares held				Total	Percentage
	Personal interests (held as beneficial owner)	Family interests	Corporate interests	Other interests		
Mr. Hong Tianzhu	-	-	555,900,000 (L) (Note 2)	-	555,900,000	63.75%
Mr. Zhu Yongxiang	-	-	248,520,000 (L) (Note 3)	-	248,520,000	28.50%

Notes:

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2004, the interests or short position of the persons other than a Director or chief executive of the Company in the Shares or underlying shares or debenture of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Ordinary Shares of the Company:

Name of the substantial shareholder	Number of Shares held				Total	Percentage
	Personal interests (held as beneficial owner)	Family interests	Corporate interests	Other interests		
New Green Group Limited	392,400,000 (L) (Note 2)	-	-	-	392,400,000	45%
Trade Partner Investments Limited	163,500,000 (L) (Note 3)	-	-	-	163,500,000	18.75%
Wisdom Grace Investments Limited	85,050,000 (L) (Note 4)	-	-	-	85,050,000	9.75%
Hong Kong Tin Hong Industrial Limited	-	-	392,400,000 (L) (Note 2)	-	392,400,000	45%
Ms. KE Luping	-	555,900,000 (L) (Notes 5)	-	-	555,900,000	63.75%
Ms. ZHAO Ziyang	-	248,520,000 (L) (Note 6)	-	-	248,520,000	28.50%

Notes:

1. The letter "L" denotes the person's long position in the Shares.
2. These 392,400,000 Shares are registered in the name of and beneficially owned by New Green Group Limited, the entire issued share capital of which is beneficially owned by Hong Kong Tin Hong Industrial Limited, a company 100% beneficially owned by Mr. Hong Tianzhu. Under the SFO, each of Hong Kong Tin Hong Industrial Limited and Mr. Hong Tianzhu is deemed to be interested in all the Shares held by New Green Group Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(Continued)*

3. These 163,500,000 Shares are registered in the name of and beneficially owned by Trade Partner Investments Limited, the entire issued share capital of which is beneficially owned as to 50.64% by Mr. Hong Tianzhu, 41.36% by Mr. Zhu Yongxiang, 2.24%, 1.68%, 1.68%, 1.68%, 0.36% and 0.36% by Mr. Sha Tao, Mr. Tang Daoping, Mr. Gong Zhao, Mr. Hu Zhiping, Mr. Yin Jianhua and Mr. Zhang Chuanmin. Under the SFO, each of Mr. Hong Tianzhu and Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Trade Partner Investments Limited.
4. These 85,020,000 Shares are registered in the name of and beneficially owned by Wisdom Grace Investments Limited, the entire issued share capital of which is beneficially owned by Mr. Zhu Yongxiang. Under the SFO, Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Wisdom Grace Investments Limited.
5. Ms. Ke Luping is the spouse of Mr. Hong Tianzhu. Under the SFO, Ms. Ke Luping is taken to be interested in the same number of Shares in which Mr. Hong Tianzhu are interested.
6. Ms. Zhao Ziyang is the spouse of Mr. Zhu Yongxiang. Under the SFO, Ms. Ke Luping is taken to be interested in the same number of Shares in which Mr. Zhu Yongxiang are interested.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" above, at no time during the 12 months ended 31 December 2004 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	16%
– five largest suppliers combined	31%
Sales	
– the largest customer	4%
– five largest customers combined	14%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Hong Kong Tin Hong Industrial Limited is a private company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Hong Tianzhu, an executive Director. Hong Kong Tin Hong Industrial Limited has interest in the following textile related business (the "Excluded Businesses") which do not form part of the Group and are either complementary to or likely to compete, directly or indirectly, with the Group's business in the PRC. Details of the Excluded Businesses are as follows:

(a) Tianhong Printing and Dyeing (Wuxi) Co., Ltd. ("Tianhong Printing and Dyeing")

Tianhong Printing and Dyeing is a wholly foreign-owned enterprise incorporated in the PRC, the entire equity interest of which is owned by Hong Kong Tin Hong Industrial Limited. Tianhong Printing and Dyeing is principally engaged in the provision of printing and dyeing services and sale of garment fabrics to garment manufacturers and trading agents. Tianhong Printing and Dyeing sells its products mainly in Jiangsu Province and Shanghai Municipality of the PRC. The management team of the Group is basically independent from the management team of Tianhong Printing and Dyeing.

(b) Nantong Textile Group Co., Ltd. ("Nantong Textile")

Nantong Textile is owned as to 39% by Hong Kong Tin Hong Industrial Limited. Nantong Textile is principally engaged in printing, dyeing of fabrics and selling of garment fabrics. Garment fabrics produced by Nantong Textile mainly include dyed and printed cotton fabrics, linen cotton blended fabrics and polyester cotton blended fabrics. Hong Kong Tin Hong Industrial Limited has no shareholding or management control over Nantong Textile.

The Group's principal business is the production and sale of yarn and grey fabrics. It is not engaged in printing and dyeing work and does not maintain any printing and dyeing facilities. The Directors are of the view that both Tianhong Printing and Dyeing and Nantong Textile do not pose any competition to the Group as the principal businesses of Tianhong Printing and Dyeing and Nantong Textile are principally different from the principal business of the Group. The relationship between the Group and each of Tianhong Printing and Dyeing and Nantong Textile is customer and supplier. The Group has to subcontract the printing and dyeing work to produce garment fabrics.

Although the Group's business of the sale of garment fabric may compete with that of Tianhong Printing and Dyeing and Nantong Textile, as garment fabric is not a principal product of the Group and a majority of the Group's garment fabric products are sold to overseas customers while Tianhong Printing and Dyeing and Nantong Textile mainly sell their garment fabric products to PRC customers, the directors of the Company are of the opinion that such potential competition does not impact on the financial position and operations of the Group.

The Group has over 20 other printing and dyeing service providers. The Directors believe the Group does not have to rely on Tianhong Printing and Dyeing and/or Nantong Textile to carry on its business given that the sales of grey fabrics by the Group to Tianhong Printing and Dyeing and Nantong Textile as a percentage of the Group's total turnover for the year under review were only about 1.4% and 0.2% respectively and purchases from Tianhong Printing and Dyeing and Nantong Textile as a percentage of the Group's total sales of garment fabrics for the year under review were only about 11.0% and nil respectively.

DIRECTORS' INTEREST IN COMPETING BUSINESS *(Continued)*

Nevertheless, in order to further delineate the respective businesses between the Group and Tianhong Printing and Dyeing and Nantong Textile and to protect the Group from any possible direct and indirect competition from Tianhong Printing and Dyeing and Nantong Textile in respect of the Group's core business of manufacture and sale of yarn and grey fabrics and the export sale of garment fabrics. Mr. Hong Tianzhu has given an irrevocable and unconditional non-compete undertaking in favour of the Company that he will not, and will procure, to the extent within his voting powers in the relevant associate, his associates, not:

- (i) to engage in the business of the manufacture and sale of yarns and grey fabrics and the business of export sales of garment fabrics;
- (ii) to solicit any existing employees of the Group for employment by him or his associates (excluding the Group); and
- (iii) to make use of any information pertaining to the business of the Group which may have come to the knowledge in his capacity as the controlling shareholder of the Group or, as the case may be, as a Director for the purpose of competing with the business of the Group.

The non-compete undertaking has taken effect from the Listing Date and shall expire on the earlier of (i) the date on which Mr. Hong and his associates cease to hold in aggregate, 30% or more of the issued share capital of the Company; or (ii) the date on which the Shares cease to be listed on the HKSE.

CONNECTED TRANSACTIONS

During the year under review, the following continuing connected transactions (the "Transactions") have been entered into by the Group to which the HKSE has granted waivers to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(a) Sales of the Group's grey fabrics to Tianhong Printing and Dyeing

Tianhong Printing and Dyeing is a company 100% owned by Hong Kong Tin Hong Industrial Limited, a controlling shareholder of the Company and the entire issued share capital of which is owned by Mr. Hong Tianzhu, an executive Director.

Pursuant to an agreement (the "Tianhong Sale Agreement") dated 21 November 2004 and entered into between the Group as vendor and Tianhong Printing and Dyeing as purchaser, Tianhong Printing and Dyeing agreed to purchase grey fabrics from the Group at market prices and on such terms of sales based principally on the standard terms of sales of the Group from time to time and such other terms as are no more favourable as those applicable to the sales of comparable grey fabrics to independent third parties. The Tianhong Sale Agreement has a term expiring on 31 December 2006 unless terminated earlier by three month's written notice by either party.

During the year under review, the Group had sold from time to time its grey fabrics to Tianhong Printing and Dyeing on normal commercial terms and were no more favourable than those available to independent third party purchasers. The aggregate sales of the Group's grey fabrics to Tianhong Printing and Dyeing amounted to approximately RMB19.4 million, it did not exceed the annual monetary cap of RMB19.5 million for year 2004.

CONNECTED TRANSACTIONS *(Continued)***(b) Purchases of garment fabrics by the Group from Tianhong Printing and Dyeing**

Pursuant to an agreement (the "Tianhong Purchase Agreement") dated 21 November 2004 and entered into between the Group as purchaser and Tianhong Printing and Dyeing as vendor, Tianhong Printing and Dyeing agreed to sell garment fabrics to the Group at market prices and on such terms of sales based principally on its standard terms of sales from time to time and such other terms as are no less favourable to the Group as those applicable to the sales of comparable garment fabrics to independent third parties. The Tianhong Purchase Agreement has a term expiring on 31 December 2006 unless terminated earlier by three month's written notice by either party.

During the year under review, the Group had purchased garment fabrics from Tianhong Printing and Dyeing from time to time and on normal commercial terms and were no less favourable than those available to independent third party purchasers. The aggregate purchases of garment fabrics by the Group from Tianhong Printing and Dyeing amounted to approximately RMB15 million, it did not exceed the annual monetary cap of RMB20 million for year 2004.

(c) Sales of Group's grey fabrics to Nantong Textile

Nantong Textile is owned as to 39% by Hong Kong Tin Hong Industrial Limited, a controlling shareholder of the Company and the entire issued share capital of which is owned by Mr. Hong Tianzhu, an executive Director.

Pursuant to an agreement (the "Nantong Sale Agreement") dated 21 November 2004 and entered into between the Group as vendor and Nantong Textile as purchaser, Nantong Textile agreed to purchase grey fabrics from the Group at market prices and on such terms of sales based principally on the standard terms of sales of the Group from time to time and such other terms as are no more favourable as those applicable to the sales of comparable grey fabrics to independent third parties. The Nantong Sale Agreement, has a term expiring on 31 December 2006 unless terminated earlier by three months' written notice by either party.

During the year under review, the Group had sold from time to time its grey fabrics to Nantong Textile on normal commercial terms and were no more favourable than those available to independent third party purchasers. The aggregate sales of the Group's grey fabrics to Nantong Textile amounted to approximately RMB2.5 million, it did not exceed the annual monetary caps of RMB3.5 million for the year 2004.

CONNECTED TRANSACTIONS *(Continued)*

(d) Purchases of garment fabrics by the Group from Nantong Textile

Pursuant to an agreement (the "Nantong Purchase Agreement") dated 21 November 2004 and entered into between the Group as purchaser and Nantong Textile as vendor, Nantong Textile agreed to sell garment fabrics to the Group at market prices and on such terms of sales based principally on its standard terms of sales from time to time and such other terms as are no less favourable to the Group as those applicable to the sales of comparable garment fabrics to independent third parties. The Nantong Purchase Agreement has a term expiring on 31 December 2006 unless terminated earlier by three months' written notice by either party.

During the year under review, there was no purchase of garment fabrics made by the Group from Nantong Textile, while the annual monetary caps of RMB1 million for the year 2004.

During the year under review, the Group had subcontracted Tianhong Printing and Dyeing to provide its printing and dyeing services on normal commercial terms from time to time and the aggregate annual processing fees paid by the Group to Tianhong Printing and Dyeing was approximately RMB712,000. As these transactions are on normal commercial terms where each of the percentage ratios (other than the profits ratio as set out in Rule 14.07 of the Listing Rules) is more than 0.1% but less than 2.5% and the total consideration was less than HK\$1,000,000, such transactions were exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors had reviewed the Transactions and confirmed that the Transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirm that the disclosure requirements in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

The related party transactions disclosed in the note 32 of the Company's financial statements, save for the transactions in between Nantong Shuanghong and the Group as refer to therein, all the other related party transactions fall under the scope of "continuing connected transaction", in Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the period between the Listing Date and 31 December 2004, the Company has complied with the Code of Best Practice as set out in the then effective appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the terms of the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules. In the period between the Listing Date and 31 December 2004, the Company, having made specific enquiry on all the directors of the Company, confirms that all its directors have complied with the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The audit committee has adopted terms of reference which are in line with the Code Provisions of the Code on Corporate Governance Practices issued by the HKSE. The audit committee is responsible to review and supervise the Group's financial reporting process and internal control system and provide advice and suggestions to the board of directors of the Company.

The audit committee had reviewed the audited results of the Group for the financial year ended 31 December 2004.

REMUNERATION COMMITTEE

The Company has established a remuneration committee, which comprises three independent non-executive directors of the Company, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi and the chairman of the Company, namely, Mr. Hong Tianzhu. The remuneration committee has adopted terms of reference which are in line with the Code Provisions of the Code on Corporate Governance Practices issued by the HKSE. The remuneration committee is responsible to formulate and make recommendation to the Board on the Group's policy and structure for all remuneration of the directors and senior management of the Group and on the establishment of a formal and transparent procedures for developing policy on such remuneration.

LITIGATION

On 5 March 2004, Jiangsu Century Texhong Textile Co., Ltd. ("Jiangsu Century"), an indirect wholly-owned subsidiary of the Company, and a US cotton supplier (the "Applicant") entered into two sale and purchase agreements (the "Relevant Contracts") for the purchase of an aggregate of 1,000 tonnes of cotton by Jianxu Century from the Applicant.

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

Jiangsu Century refused to issue the letters of credit pursuant to the terms of the Relevant Contracts due to the quality and the quantity of cotton delivered by the Applicant in the previous dealings failed to comply with the specifications of Jiangsu Century. In this regard, Jiangsu Century commenced an arbitration proceedings against the Applicant in November 2004 claiming for economic loss of an aggregate of RMB1,468,738.

The above disputes were heard by the CIETAC on 3 December 2004 and 4 March 2005 respectively. CIETAC has not yet indicated the date for the final decisions up to the date of this annual report.

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

SUBSEQUENT EVENTS

On 28 January 2005, the Group entered into a lease agreement with the Liquidation Committee of Jiangsu Yinyu Sanlian Group Limited for leasing of approximately 87,000 spindles, representing approximately 42.9% increase in yarn production capacity and 84 air-jet looms for a term of 3 years with an annual rental of RMB3.96 million.

AUDITORS

The financial statements of the Company for the year under review have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Since 12 July 2004, being the incorporation date of the Company, there had been no change of its auditors.

On behalf of the Board

Hong Tianzhu

Chairman

Hong Kong, 31 March 2005