1. GROUP REORGANISATION AND BASIS OF PRESENTATION

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

On 21 November 2004, the Company acquired the entire issued share capital of Texhong Textile Holding Limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 33.

The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated accounts of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2004, including the comparative figures for the year ended 31 December 2003, present the results and the state of affairs of the Group as if the Group resulting from the Reorganisation had been in existence from the beginning of 1 January 2003.

As the Company was only incorporated on 12 July 2004, there are no comparative figures, as at 31 December 2003, for the Company's balance sheet as at 31 December 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in its accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results and state of affairs.

The accounts have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value.

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Other than the Reorganisation referred to in Note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(a) Consolidation *(Continued)*

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The Group presents its accounts in Chinese Renminbi ("RMB"). The balance sheets of the Company and the subsidiary expressed in foreign currencies are translated into RMB at the rates of exchange ruling at the balance sheet date, whilst the profit and loss accounts are translated into RMB at an average rate. Exchange differences arising in these cases are dealt with as a movement in reserves.

(c) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful lives of those assets of 10 years, and negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

(d) Fixed assets

(i) Construction-in-progress

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installations 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 fixed assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

(ii) Land and buildings

Leasehold land and buildings are stated at fair value which is determined by the directors based on independent valuations which are performed at intervals of not more than three years. The valuation is on an open market basis relating to individual properties. In the intervening years, the directors review the carrying value of the land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations recorded in the fixed assets revaluation reserve in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

This represents a change in accounting policy with effect from 31 May 2004, which has been accounted for prospectively. Previously, the land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. The directors consider that the change in accounting policy has resulted in a more fairly presented valuation on land and buildings.

(iii) Other fixed assets

Other fixed assets, comprising machinery and equipment, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of those assets.

(iv) Depreciation

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, after taking into consideration of an estimated residual of 10% of cost. The principal annual rates are as follows:

Land	2%
Buildings	3%-6%
Machinery and equipment	6%-15%
Furniture and fixtures	9%-18%
Motor vehicles	7.5%-18%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets *(Continued)*

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress, land and buildings and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Government grants / subsidies

A government grant/subsidy is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant/subsidy will be received. Under these circumstances, grants/subsidies relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate. Grants/subsidies relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grant/subsidy is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

(h) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employees benefits

(i) 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.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Contingent liabilities and contingent assets

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 accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss accounts on a straight-line basis over the lease periods.

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

(i) Turnover and revenue

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

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of goods (excluded value added tax)	**1,415,852**	1,034,340
Other revenue		
Subsidy income	**8,648**	2,436
Interest income	**480**	227
Rental income – machinery and equipment	**250**	375
Total other revenue	**9,378**	3,038
Total revenue	**1,425,230**	1,037,378

(ii) Segment information

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

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
Crediting –		
Amortisation of negative goodwill (included in general and administrative expenses)	**1,258**	1,258
Gain on disposal of fixed assets	**402**	–
Net exchange gains	**771**	–
Charging –		
Staff costs, including directors' emoluments (Note 10)	**88,141**	61,986
Operating leases rental in respect of land and buildings	**637**	437
Depreciation of fixed assets (Note 14)	**27,920**	24,873
Loss on disposal of fixed assets	**203**	125
Provision for bad and doubtful debts	**1,742**	994
Net exchange losses	**–**	5,272
Auditors' remuneration	**2,500**	131

5. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable within five years	**12,685**	8,626
Other incidental borrowing costs	**508**	385
Total borrowing costs incurred	**13,193**	9,011
Less: amount capitalised in fixed assets	**–**	(121)
	13,193	8,890

6. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 RMB'000	2003 RMB'000
Current – Mainland China enterprise income tax ("EIT")	**10,573**	6,581
Deferred taxation relating to fixed assets revaluation (Note 27)	**(60)**	–
	10,513	6,581

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using EIT rates in Mainland China, where the Group principally operates, as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	**147,201**	91,419
EIT weighted-average tax rates in Mainland China	**30%**	30%
Taxation at EIT weighted average tax rates	**44,160**	27,426
Income tax credit granted for qualified purchase of domestic equipment	**(1,995)**	–
Tax effect of		
– income subject to tax exemption	**(31,815)**	(21,322)
– income not subject to taxation	**–**	(48)
– expenses not deductible for taxation purposes	**76**	346
– others	**87**	179
Taxation charges	**10,513**	6,581

6. TAXATION *(Continued)*

Notes –

(i) Hong Kong profits tax

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

(ii) Mainland China enterprise income tax

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

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

(iii) Overseas income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the 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.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of RMB3,933,000.

8. DIVIDENDS

The Company was incorporated in the Cayman Islands on 12 July 2004. No dividend was declared by the Company in respect of the year ended 31 December 2004.

The dividends disclosed in the profit and loss accounts represent dividends declared by subsidiaries to their then shareholders prior to the completion of the Reorganisation as described in Note 1.

9. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of RMB136,688,000 (2003: RMB84,838,000).

The basic earnings per share is based on the weighted average number of 708,589,589 (2003: 697,600,000) ordinary shares in issue during the year.

The diluted earnings per share is based on 708,589,589 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 190,334 ordinary shares deemed to be issued at no consideration if all outstanding employee options had been exercised.

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 RMB'000	2003 RMB'000
Wages, salaries and bonuses	**74,141**	53,943
Pension costs – defined contribution plans	**8,273**	4,659
Other employment benefits	**5,727**	3,384
	88,141	61,986

11. RETIREMENT BENEFIT COSTS AND OTHER EMPLOYMENT BENEFITS

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 2004, the Group contributed approximately RMB6,785,000 (2003: RMB4,659,000) to the aforesaid state-sponsored retirement plans. As at 31 December 2004, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions (2003: Nil).

In addition, 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 2004, the Group contributed approximately RMB5,433,000 (2003: RMB2,016,000) to these plans.

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 2004, the Group contributed approximately RMB3,000 (2003: Nil) to the MPF Scheme.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company are as follows:

	2004 RMB'000	2003 RMB'000
Executive directors		
Fees	–	–
Other emoluments		
– Basic salaries and allowances		
Hong Tianzhu	201	48
Zhu Yongxiang	107	22
Gong Zhao	70	30
Tang Daoping	64	24
	442	124
– Discretionary bonuses		
Zhu Yongxiang	–	80
Tang Daoping	–	120
	–	200
– Contributions to pensions schemes for directors		
Hong Tianzhu	19	11
Zhu Yongxiang	5	5
Gong Zhao	6	6
Tang Daoping	5	5
	35	27
	477	351
Independent non-executive directors		
– Fees		
Ting Leung Huel, Stephen	16	–
Cheng Longdi	6	–
Zhu Lanfen	6	–
	28	–

None of the directors waived any emoluments during the years ended 31 December 2004 and 2003.

The emoluments of the directors fell within the following bands:

	Number of directors 2004	2003
Nil - RMB1,060,000 (equivalent of nil - HK$1,000,000)	7	4

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual are as follows:

	2004	2003
	RMB'000	RMB'000
Basic salaries and allowances	**325**	22
Discretionary bonuses	**–**	50
Pensions	**3**	5
	328	77

13. NEGATIVE GOODWILL

Movements were:

	Group	
	2004	2003
	RMB'000	RMB'000
Cost		
At beginning and end of year	**(12,585)**	(12,585)
Accumulated amortisation		
At beginning of year	**2,307**	1,049
Amortisation for year	**1,258**	1,258
At end of year	**3,565**	2,307
Net book value		
At end of year	**(9,020)**	(10,278)

14. FIXED ASSETS

	Land and buildings RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction –in-progress RMB'000	Total RMB'000
	Group					
Cost or valuation:						
At 1 January 2004	78,247	259,604	2,019	2,754	4,835	347,459
Additions	20,236	16,865	1,274	2,534	40,731	81,640
Transfers	6,724	38,376	–	–	(45,100)	–
Revaluation (Note 26)	110,506	–	–	–	–	110,506
Disposals	(5)	(731)	(2)	–	–	(738)
At 31 December 2004	**215,708**	**314,114**	**3,291**	**5,288**	**466**	**538,867**
Accumulated depreciation:						
At 1 January 2004	(4,584)	(43,357)	(532)	(546)	–	(49,019)
Charge for the year	(4,230)	(22,748)	(330)	(612)	–	(27,920)
Revaluation (Note 26)	5,379	–	–	–	–	5,379
Disposals	1	103	–	–	–	104
At 31 December 2004	**(3,434)**	**(66,002)**	**(862)**	**(1,158)**	**–**	**(71,456)**
Net book value:						
At 31 December 2004	**212,274**	**248,112**	**2,429**	**4,130**	**466**	**467,411**
At 31 December 2003	73,663	216,247	1,487	2,208	4,835	298,440

The analysis of the cost or valuation of net book value of the above fixed assets is as follows:

	Land and buildings RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 31 December 2004						
At cost	**5,784**	**248,112**	**2,429**	**4,130**	**466**	**260,921**
At valuation	**206,490**	**–**	**–**	**–**	**–**	**206,490**
	212,274	**248,112**	**2,429**	**4,130**	**466**	**467,411**
At 31 December 2003						
At cost	73,663	216,247	1,487	2,208	4,835	298,440

14. FIXED ASSETS *(Continued)*

Notes –

(i) All land and buildings are located in Mainland China and are held under land use rights for a period of 10 to 50 years.

(ii) Land and buildings were stated at open market value at 30 September 2004, based on a valuation carried out by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The revaluation surplus net of applicable deferred tax liabilities was credited to fixed assets revaluation reserve in equity (Note 26).

The carrying amount of land and buildings as at 31 December 2004 would have been RMB97,367,000 had they been stated at cost less accumulated depreciation.

(iii) Land and buildings with an aggregated net book value of RMB66,485,000 as at 31 December 2004 (2003: RMB21,196,000) were pledged as collateral of the Group's short-term bank loans (Note 23).

Machinery and equipment with an aggregated net book value of RMB107,519,000 as at 31 December 2004 (2003: RMB86,900,000) were pledged as collateral of the Group's short-term bank loans (Note 23).

(iv) As at 31 December 2004, cost of land amounting to RMB4,400,000 represents cost of acquisition of the land of RMB26,289,000 less related government grants of RMB21,889,000 deducted from the acquisition cost (Note 29(i)).

	Company Furniture and fixtures RMB'000
Cost:	
Additions	563
At 31 December 2004	563
Accumulated depreciation:	
Charge for the year	(28)
At 31 December 2004	(28)
Net book value:	
At 31 December 2004	535

15. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2004 RMB'000
Investments at cost:	
Unlisted equity investments	246,592
Loans to a subsidiary	25,688
	272,280

Particulars of the principal subsidiaries of the Group are set out in Note 33.

The loans to a subsidiary are unsecured, non-interest bearing and have no pre-determined terms of repayment.

16. INVENTORIES

	Group 2004 RMB'000	2003 RMB'000	Company 2004 RMB'000
Raw materials	**74,953**	76,222	–
Work in progress	**28,313**	20,460	–
Finished goods	**61,119**	36,371	–
	164,385	133,053	–
Less: Provision for loss on realisation of inventories	–	(910)	–
	164,385	132,143	–

No inventories were stated at net realisable value as at 31 December 2004 and 2003.

17. TRADE AND BILLS RECEIVABLES

	Group 2004 RMB'000	2003 RMB'000	Company 2004 RMB'000
Trade receivables	**108,838**	96,628	–
Bills receivables	**23,170**	7,662	–
	132,008	104,290	–

Notes –

(i) The Group's customers are generally required to settle sales invoices within 90 days from the invoice dates. Ageing analysis of the trade and bills receivables are as follows:

	Group 2004 RMB'000	2003 RMB'000	Company 2004 RMB'000
0 to 30 days	**102,083**	72,291	–
31 to 90 days	**23,769**	24,147	–
91 to 180 days	**4,882**	2,691	–
181 days to 1 year	**2,186**	1,619	–
Over 1 year	**2,009**	4,302	–
	134,929	105,050	–
Less: provision for bad debts	**(2,921)**	(760)	–
	132,008	104,290	–

(ii) Included in the trade receivables were amounts due from related parties of RMB5,483,000 as at 31 December 2004 (2003: RMB3,240,000) (Note 32(c)).

(iii) RMB2,000,000 of bills receivables (2003: Nil) as at 31 December 2004 were pledged as collateral of the Group's short-term bank loans (Note 23).

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company
	2004	2003	**2004**
	RMB'000	RMB'000	**RMB'000**
Deposits for purchases of raw materials	**22,182**	58,516	–
Staff advances and loans	**854**	1,039	–
Other receivables	**548**	2,698	**51**
VAT recoverable	**1,069**	1,387	–
Prepayments	**2,200**	281	**183**
Deposits	**121**	101	**99**
	26,974	64,022	**333**

19. PLEDGED BANK DEPOSITS

Pledged bank deposits denominated in RMB were held by banks as collateral of the Group's banking facilities.

20. BANK BALANCES AND CASH

As at 31 December 2004, approximately RMB78,788,000 (2003: RMB32,788,000) of the Group's cash and cash equivalents were denominated in RMB, which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC, and the remittance of these funds out of the PRC is subject to the exchange restrictions imposed by the Government of the PRC.

21. TRADE PAYABLES

The ageing analysis of the trade payables was as follows:

	Group		Company
	2004	2003	**2004**
	RMB'000	RMB'000	**RMB'000**
0 to 90 days	**62,874**	49,641	–
91 to 180 days	**1,055**	917	–
181 days to 1 year	**500**	334	–
1 year to 2 years	**890**	1,478	–
Over 2 years	**216**	445	–
	65,535	52,815	–

Included in the trade payables were amounts due to related parties of Nil as at 31 December 2004 (2003: RMB966,000) (Note 32(c)).

22. ACCRUALS AND OTHER PAYABLES

	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000
Deposits from customers	**8,716**	10,166	**–**
Taxation payables other than EIT	**3,996**	1,229	**–**
Accrued wages and salaries	**13,220**	5,521	**312**
Deposits	**1,959**	2,072	**–**
Other payables	**14,771**	5,478	**40**
Accruals	**5,792**	1,631	**2,778**
Payables for purchase of fixed assets from liquidated state-owned companies	**14,665**	13,767	**–**
	63,119	39,864	**3,130**

23. BANK LOANS

	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000
Short-term bank loans			
– Unsecured	**119,400**	119,358	**–**
– Secured	**108,532**	116,500	**–**
	227,932	235,858	**–**

Bank loans bore interest at rates ranging from 5.0% to 8.0% per annum for the year ended 31 December 2004 (2003: 1.7% to 6.4%).

Certain bank loans were secured by the followings:

(i) pledge of the Group's certain land and buildings and machinery and equipment with an aggregated net book value of approximately RMB174,004,000 as at 31 December 2004 (2003: RMB108,096,000) (Note 14);

(ii) pledge of the Group's bank balance of RMB7,114,000 (2003: Nil) (Note 19);

(iii) pledge of the Group's bills receivables of RMB2,000,000 (2003: Nil) (Note 17(iii)); and

(iv) corporate guarantees provided by subsidiaries totalling of RMB109,500,000 as at 31 December 2004 (2003: RMB117,258,000).

24. SHARE CAPITAL

	Note	Ordinary shares of HK$0.1 each	
		Number of shares	
		'000	HK$'000
Authorised:			
On incorporation at 12 July 2004	(i)	1,000	100
Increase in authorised share capital on 21 November 2004	(ii)	3,999,000	399,900
At 31 December 2004		4,000,000	400,000
Issued:			
On 27 July 2004	(iii)	1,000	100
Share allotted and issued on 21 November 2004 to acquire subsidiaries	(iv)	1,000	100
Share allotted and issued on 21 November 2004	(v)	695,600	69,560
New issue of shares	(vi)	174,400	17,440
At 31 December 2004		872,000	87,200

Notes –

(i) The Company was incorporated in Cayman Islands on 12 July 2004 with an authorised capital of 1,000,000 shares with par value HK$ 0.1 each.

(ii) Pursuant to shareholders' resolutions passed on 21 November 2004, the authorised share capital was increased from HK$100,000 (1,000,000 shares of HK$0.1 each) to HK$400,000,000 (4,000,000,000 shares of HK$0.1 each) by the creation of an additional 3,999,000,000 new shares of HK$0.1 each.

(iii) On 27 July 2004, 1,000,000 shares were allotted and issued nil paid.

(iv) On 21 November 2004, as part of the Reorganisation, the Company (i) allotted and issued, credited as fully paid, 1,000,000 shares, and (ii) credited as fully paid at par the 1,000,000 shares issued and nil paid, as consideration for the acquisition of Texhong Textile Holdings Limited, pursuant to the Reorganisation.

(v) Pursuant to a shareholders' resolution passed on 21 November 2004, the directors were authorised to capitalise HK$69,560,000 standing to the credit of the share premium account of the Company after a proposed initial public offering of the Company's shares (see (vi) below) to issue 695,600,000 shares, credited as fully paid, to the Company's shareholders at close of business on 21 November 2004 in proportion to their then existing shareholdings in the Company.

(vi) On 9 December 2004, the Company issued 174,400,000 shares at HK$1.15 each in connection with an initial public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

25 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. These options have remained outstanding as at 31 December 2004.

(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 of Hong Kong Limited ("the Stock Exchange") on the date of the offer of grant; or (ii) the average closing price of shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of a share. A nominal consideration of HK$1 (equivalent of RMB1.06) is payable on acceptance of the grant of an option. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issued from time to time. At 31 December 2004, no options had been granted under the Share Option Scheme.

26. RESERVES

	Group					
	Share premium RMB'000	Capital reserves (i) RMB'000	Statutory reserves (ii) RMB'000	Fixed assets revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2003	–	34,057	17,257	–	99,853	151,167
Capital injection into subsidiaries before the Reorganisation	–	22,920	–	–	–	22,920
Profit for the year	–	–	–	–	84,838	84,838
Dividends	–	–	–	–	(42,290)	(42,290)
Transfer to statutory reserves	–	–	5,978	–	(5,978)	–
At 31 December 2003	–	56,977	23,235	–	136,423	216,635
Capital injection into subsidiaries before the Reorganisation	–	105,064	–	–	–	105,064
Profit for the year	–	–	–	–	136,688	136,688
Surplus on revaluation of land and buildings						
– gross (Note 14)	–	–	–	115,885	–	115,885
– deferred tax (Note 27)	–	–	–	(29,560)	–	(29,560)
Premium on issue of shares	194,967	–	–	–	–	194,967
Share issue costs	(19,583)	–	–	–	–	(19,583)
Transfer to statutory reserves	–	–	14,093	–	(14,093)	–
Dividends	–	–	–	–	(194,176)	(194,176)
At 31 December 2004	**175,384**	**162,041**	**37,328**	**86,325**	**64,842**	**525,920**

	Company			
	Share premium RMB'000	Capital reserves (i) RMB'000	Accumulated loss RMB'000	Total RMB'000
Loss for the year	–	–	(3,933)	(3,933)
Difference between the amount of share capital issued and the net asset value of the subsidiaries acquired	–	172,319	–	172,319
Premium on issue of shares	194,967	–	–	194,967
Share issue costs	(19,583)	–	–	(19,583)
At 31 December 2004	175,384	172,319	(3,933)	343,770

26. RESERVES *(Continued)*

(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.

27. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using applicable taxation rates of the Group's subsidiaries.

The movements in deferred tax liabilities were as follows:

	Group		**Company**
	2004	2003	**2004**
	RMB'000	RMB'000	**RMB'000**
At 1 January	**–**	–	**–**
Deferred taxation credited to profit and loss account (Note 6)	**(60)**	–	**–**
Taxation charged to equity in relation to the revaluation reserve of land and buildings (Note 26)	**29,560**	–	**–**
At 31 December	**29,500**	–	**–**

At 31 December 2004, deferred tax assets in respect of tax losses of certain subsidiaries amounting to RMB9,029,000 (2003: RMB7,167,000) have not been recognised as it is uncertain that these subsidiaries have sufficient future taxable profits to utilise these tax losses before they expire.

28. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2004 **RMB'000**	2003 RMB'000
Profit before taxation	**147,201**	91,419
Interest income	**(480)**	(227)
Interest expense	**12,685**	8,505
Amortisation of negative goodwill	**(1,258)**	(1,258)
Depreciation of fixed assets	**27,920**	24,873
(Gain)/loss on disposal of fixed assets	**(199)**	125
Operating profit before working capital changes	**185,869**	123,437
Increase in inventories	**(32,242)**	(50,291)
Increase in trade and bills receivables	**(27,718)**	(21,572)
Decrease/(increase) in prepayments, deposits and other receivables	**37,048**	(21,173)
Increase/(decrease) in trade payables	**12,720**	(8,322)
Increase/(decrease) in accruals and other payables	**22,838**	(3,812)
Net cash inflow generated from operations	**198,515**	18,267

(b) Analysis of changes in financing

	Share capital and share premium RMB'000 (Notes 24 and 26)	**Capital reserve** RMB'000 (Note 26)	**Due to related parties** RMB'000 (Note 32(c))	**Bank loans** RMB'000 (Note 23)	**Long-term payables** RMB'000
At 1 January 2003	74,273	34,057	22,951	156,059	13,613
New loans	–	–	8,000	263,410	–
Repayment of loans	–	–	(19,504)	(183,611)	–
Capital injection into subsidiaries before the Reorganisation	–	22,920	–	–	–
Dividends declared	–	–	42,290	–	–
Dividends paid	–	–	(42,290)	–	–
Repayment of long-term payables	–	–	–	–	(13,408)
At 31 December 2003	74,273	56,977	11,447	235,858	205
New loans	**–**	**–**	**–**	**242,932**	**–**
Repayment of loans	**–**	**–**	**(10,834)**	**(250,858)**	**–**
Repayment of long-term payables	**–**	**–**	**–**	**–**	**(205)**
Issue of shares	**213,536**	**–**	**–**	**–**	**–**
Share issue costs	**(19,583)**	**–**	**–**	**–**	**–**
Capital injection into subsidiaries before the Reorganisation	**–**	**105,064**	**–**	**–**	**–**
Dividends declared	**–**	**–**	**194,176**	**–**	**–**
Dividends paid	**–**	**–**	**(169,789)**	**–**	**–**
At 31 December 2004	**268,226**	**162,041**	**25,000**	**227,932**	**–**

(c) Cash and cash equivalents

Cash and cash equivalents consists of bank balances and cash.

29. CONTINGENT LIABILITIES

The Group had contingent liabilities not provided for as follows:

	Group		Company
	2004	2003	**2004**
	RMB'000	RMB'000	**RMB'000**
Government grants obtained from the Management Committee of Taizhou Economic Development Zone (Note (i))	**21,889**	21,889	–

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

Note –

(i) During the year ended 31 December 2002, Taizhou Century Texhong Textile Co., Ltd., a wholly owned subsidiary, acquired a plot of land in Mainland China for RMB26,289,000 and paid RMB4,400,000, with the remaining balance of RMB21,889,000 covered by government grants (Note 14). 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.

30. BANKING FACILITIES

As at 31 December 2004, the Group had available banking facilities of RMB273,000,000 (2003: RMB78,000,000), which was utilised to the extent of RMB212,900,000 (2003: RMB48,400,000). These banking facilities were secured by the followings:

(i) pledge of the Group's certain land and buildings and machinery and equipment with an aggregated net book value of approximately RMB174,004,000 as at 31 December 2004 (2003: RMB108,096,000) (Note 14);

(ii) pledge of the Group's bank balance of RMB7,114,000 (2003: Nil) (Note 19);

(iii) pledge of the Group's bills receivables of RMB2,000,000 (2003: Nil) (Note 17(iii)); and

(iv) corporate guarantees provided by subsidiaries totalling of RMB109,500,000 (2003: RMB117,258,000) as at 31 December 2004.

31. COMMITMENTS

(a) Capital commitments:

	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000
Authorised, contracted but not provided for – purchase of machinery and equipment	**1,080**	1,565	**–**

(b) Commitment in relation to capital injections into subsidiaries:

	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000
Xuzhou Texhong Times Textile Co., Ltd. (Note 33(i))	**35,182**	–	**–**
Taizhou Century Texhong Textile Co., Ltd.	**–**	37,110	**–**
	35,182	37,110	**–**

(c) Operating leases:

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

	Group 2004 RMB'000	Group 2003 RMB'000	Company 2004 RMB'000
Not later than one year	**927**	431	396
Later than one year and not later than five years	**1,822**	634	297
	2,749	1,065	693

32. RELATED PARTY TRANSACTIONS

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

(a) 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
Hongkong Tinhong Industrial Co., Ltd.	Controlled by Hong Tianzhu, a director
New Green Group Limited	Shareholder
Nantong Shuanghong Textile Co., Ltd.	Controlled by Hong Weihe, father of Hong Tianzhu, a director
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	Controlled by Hongkong Tinhong Industrial Co., Ltd.
Pujiang Xintian Textile Co., Ltd.	Controlled by Hong Xinbei, brother of Hong Tianzhu, a director
Nantong Textile Group Co., Ltd.	Associate company of Hongkong Tinhong Industrial Co., Ltd.

(b) Transactions with related parties:

The Group had the following significant transactions with its related parties, as follows –

	2004	2003
	RMB'000	RMB'000
Nantong Textile Group Co., Ltd.		
– Sales of goods	**2,505**	1,530
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.		
– Purchase of goods	**15,049**	5,121
– Sales of goods	**19,427**	8,265
– Subcontracting fee	**712**	230
Nantong Shuanghong Textile Co., Ltd.		
– Purchase of goods	**33,825**	30,922
– Sales of goods	**5,451**	3,045
– Receipt of rental income	**250**	375
– Subcontracting fee	**1,754**	672

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.

32. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties:

The Group had the following significant balances with related parties –

	2004 RMB'000	2003 RMB'000
Trade-related:		
Trade receivables (Note 17(ii))		
– Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	**5,483**	3,180
– Nantong Shuanghong Textile Co., Ltd.	–	60
	5,483	3,240
Non-trade: Due from related parties		
Loans to related parties		
– Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	–	5,090
– Pujiang Xintian Textile Co., Ltd.	–	1,128
– Nantong Shuanghong Textile Co., Ltd.	–	484
	–	6,702
Trade-related:		
Trade payables (Note 21)		
– Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	–	966
Non-trade: Due to related parties		
– Nantong Shuanghong Textile Co., Ltd.	–	95
– Nantong Textile Group Co., Ltd.	–	8,000
– Mr. Hong Tianzhu	–	2,739
– New Green Group Limited (Note (i))	**25,000**	–
– Hongkong Tinhong Industrial Co., Ltd.	–	613
	25,000	11,447

Note –

(i) This represents the balance of the dividend payable to a shareholder, and is unsecured and non-interest bearing.

33. PARTICULARS OF SUBSIDIARIES

The following is a list of the significant subsidiaries at 31 December 2004:

Name	Place and date of incorporation and operation and kind of legal entity	Principal activities	Particulars of issued share capital or paid-in capital	Interest held
Directly held –				
Texhong Textile Holdings Limited	British Virgin Islands 26 May 2004 limited liability company	Investment holding	100 ordinary shares of US$1 each	100%
Texhong Textile Investment Limited	British Virgin Islands 9 December 2004 limited liability company	Investment holding	1 ordinary share of US$1	100%
Indirectly held –				
Texhong Textile (Taizhou) Co., Ltd.	Tai Zhou, the PRC 20 October 1997 limited liability company	Manufacturing and sales of yarns and grey fabrics	US$155,000	100%
Texhong Textile (Jinhua) Co., Ltd.	Jinhua, the PRC 4 January 1998 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress	US$350,000	100%
Texhong Textile (Suining) Co., Ltd.	Xuzhou, the PRC 26 June 1998 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress	US$150,000	100%
Taizhou Texhong Weaving Co., Ltd.	Taizhou, the PRC 15 January 2000 limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning	US$2,100,000	100%
Zhejiang Texhong Textile Co., Ltd.	Jinhua, the PRC 18 May 2000 limited liability company	Manufacturing and sales of industrial-use textile products, top-grade grey fabrics and blended-spinning	US$3,350,000	100%
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)	Xuzhou, the PRC 6 June 2000 limited liability company	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress; processing of cotton	US$7,100,000	100%
Taizhou Century Texhong Textile Limited	Taizhou, the PRC 23 April 2002 limited liability company	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning	US$9,000,000	100%

33. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation and operation and kind of legal entity	Principal activities	Particulars of issued share capital or paid-in capital	Interest held
Zhejiang Century Texhong Textile Co., Ltd.	Jinhua, the PRC 10 May 2002 limited liability company	Manufacturing and sales of top-grade spinning and fire-resistant fabrics (excluding dyed fabrics)	US$2,650,000	100%
Nantong Century Texhong Textile Co., Ltd.	Nantong, the PRC 7 June 2002 limited liability company	Manufacturing and sales of yarns, grey fabrics and dyed fabrics	US$2,200,000	100%
Xuzhou Century Texhong Tex Limited	Xuzhou, the PRC 13 January 2003 limited liability company	Manufacturing and sales of top-grade yarns and cloth spinning	US$500,000	100%
Xuzhou Texhong Yinfeng Textile Co., Ltd.	Xuzhou, the PRC 12 May 2004 limited liability company	Manufacturing and sales of yarns, grey fabrics, cloth and dyed fabrics	US$2,100,000	100%
Nantong Texhong Yinhai Textile Co., Ltd.	Nantong, the PRC 20 May 2004 limited liability company	Manufacturing and sales of garment, textile knitting products, and yarns.	US$500,000	100%
Xuzhou Texhong Times Textile Co., Ltd.	Xuzhou, the PRC 29 December 2004 limited liability company	Manufacturing and sales of top-grade yarns, thread, grey fabrics, textile knitting products, and garments.	US$5,000,000 (i)	100%

Note –

(i) The Group was committed to contribute capital of US$5,000,000 (equivalent of RMB41,383,000) into Xuzhou Texhong Times Textile Co., Ltd. within three years after its establishment in December 2004, of which approximately US$750,000 (equivalent of RMB6,201,000) was contributed as at 31 December 2004.

34. SUBSEQUENT EVENTS

In January 2005, the Group entered into an agreement to lease machinery for three years with an annual rental of RMB3,960,000.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 31 March 2005.