

MARKET REVIEW

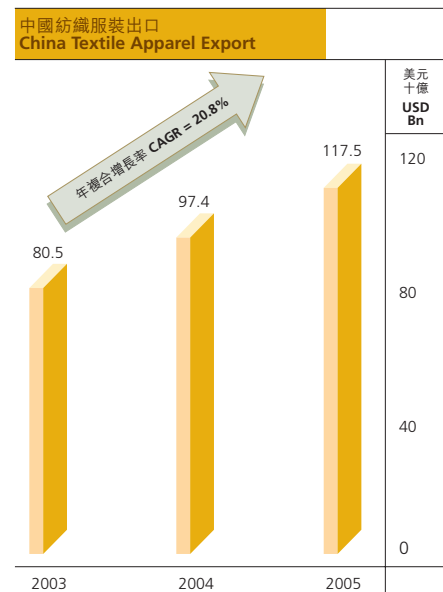
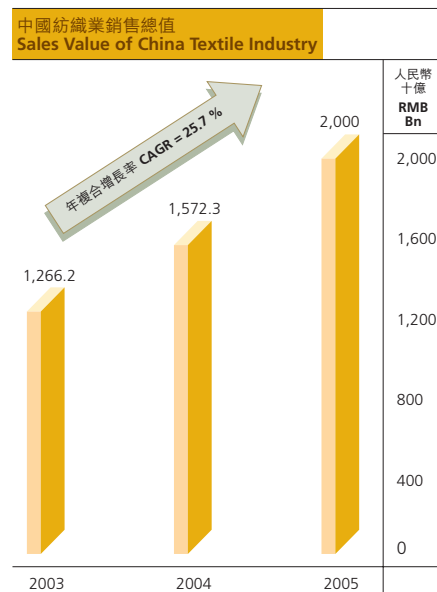
Following the abolition of the export quota system on 1 January 2005, exports of textile products in China increased significantly in the first quarter of 2005. The sudden surge in the export sales had become a major concern to overseas textile enterprises, in particular, the US and the EU textile sectors, which pressured their governments to implement special protection policies against some of the textile products in China. A series of textile trade disputes, implementation of special protection measures and the re-imposition of quota system on the export of textile and garment products in China by EU and the US spelled uncertainties for the export markets of textile enterprises in China. PRC textile enterprises confronted a difficult and complicated market environment in the year under review until the signing of the textile agreement between the US and China governments on 8 November 2005.

市場回顧

隨著出口配額制度於二零零五年一月一日廢除，中國紡織品出口數量於二零零五年第一季大大提升。出口銷售額突然急升成為海外紡織，尤其美國及歐盟紡織業界關注的問題，彼等向其政府施壓，要求對某些中國紡織品實施特別保護政策。一連串紡織貿易糾紛，歐盟及美國對中國出口紡織品及成衣產品實施特別保護政策及重施配額制度使中國紡織企業的出口市場存在種種不明朗因素。中國紡織企業於回顧年度面對困難及複雜的市場環境，直至美國與中國政府於二零零五年十一月八日簽訂紡織品協議方有改善。

MARKET STATISTICS OF CHINA TEXTILE INDUSTRY

中國紡織工業的市場數據



Source: China National Textile Industry Council

資料來源：中國紡織工業協會

While the international trading environment proved unfavorable to the export of textile products in China in 2005, demand from domestic market in China has grown substantially as a result of the continual economic growth of China. As shown in the above table, the sales value of China textile industry in 2005 is estimated to reach RMB2,000 billion, representing a 27.2% growth as compared to 2004, which is higher than the growth of the export of China textile and apparel of 20.6%. More importantly, the persistent increase in the consumption power of residents in China contributed to the increasing demand for higher quality textile products. High value-added textile materials designed to enhance the quality and value of textile products are instrumental in satisfying the market demand for quality textile products. In addition, overseas manufacturers of branded apparel flocking to establish plants in China or outsourcing production to the PRC enterprises also helps spurring the market demand for high value-added upstream textile products. The burgeoning market environment has provided impetus for upstream textile sector.

Following the signing of the textile agreements between China and the US/EU governments in 2005, it is believed that the textile industry in China will be relatively more stable in 2006 to 2008. However, potential threats arising from trade protectionism and international trade disputes on textile and garment products are likely to continue and may impact on textile industry in China in the near future. Textile and garment enterprises with lower competitiveness will be posed with mounting challenges. Such development trend will expedite the consolidation process of the fragmented textile industry in China and create attractive merger and acquisition opportunities for larger scaled textile manufacturers with higher competitiveness.

BUSINESS REVIEW

The Group is one of the world's largest suppliers of core-spun cotton textile products, engaging in the sales of yarn, grey fabrics and garment fabrics with focuses on manufacturing high value-added core-spun yarn.

二零零五年國際貿易環境對中國紡織品出口大為不利，然而，中國本土市場的需求卻隨著中國經濟持續發展而大幅增長。如上表所示，中國紡織業於二零零五年的銷售額估計達人民幣20,000億元，較二零零四年上升27.2%，較中國紡織及服裝出口的20.6%增長為高。更重要的是，中國國民的消費能力持續增長，帶動市場對更高質素紡織品的需求不斷增長。高附加值紡織物料設計可提高紡織品的質素及價值，可滿足市場對高質素紡織產品的需求。此外，海外及品牌服裝製造商紛紛於中國設廠，或外判生產工序予中國企業，亦有助刺激市場對高附加值上游紡織品的需求，如此蓬勃的市場環境推動了上游紡織業。

隨著中國與美國/歐盟政府於二零零五年簽訂紡織協議，相信中國紡織業將於二零零六年至二零零八年漸趨穩定。然而，對紡織品及成衣產品實施貿易保護措施及由國際貿易糾紛產生的潛在威脅很可能會持續，並可能於不久將來影響中國紡織業。競爭性較低的紡織及成衣企業將面對很大的挑戰。該發展趨勢將促進中國零碎的紡織業的整合過程，並為競爭力較佳的大型紡織製造商創造合併及收購機會。

業務回顧

本集團為全球最大棉包芯紡織品供應商之一，主要銷售產品包括紗線、坯布及面料，尤其專注生產高附加值的棉包芯紗線。

The Group's "quick – response" flexible operation strategy and high quality products have further gained recognition and orders from customers in 2005 and sales have increased substantially.

Sales Volume 產品銷售量		2005 二零零五年	2004 二零零四年	Growth 增幅
Yarn (ton)	紗線(噸)	47,877	24,465	95.7%
Grey fabrics (million meters)	坯布(百萬米)	86.1	80.1	7.5%
Garment fabrics (million meters)	面料(百萬米)	15.0	9.9	51.5%

The Group's yarn and grey fabrics were sold to over 17 provinces and cities in China, including Jiangsu Province, Zhejiang Province, Guangdong Province, Shandong Province and Shanghai. While garment fabrics was exported to numerous regions such as Europe, North America, South Korea, Hong Kong, Bangladesh, etc. The Group's sales in each market recorded significant growth in 2005, in which sales revenue of China market posted a year-on-year growth of 34.1% to RMB1,718.4 million and export sales amounted to RMB197.5 million, representing a 46.8% growth from last year.

In February 2005, the Group leased a plant with five factories in Xuzhou, Jiangsu Province from Jiangsu Yinyu Sanlian Group Limited at an annual rent of RMB3.96 million, adding 87,000 spindles and 84 shuttleless looms for the Group. The plant commenced operations in April, soon after the upgrade of production facilities. At the same time, the Group expanded the production facilities of Xuzhou Texhong Yinfeng Textile Co., Ltd. by adding 12,600 spindles for manufacturing core-spun cotton yarn, which have been put into production in March 2005. Furthermore, in March 2005, the Group commenced construction of its new plant with 100,000 spindles in Suining County, Xuzhou, Jiangsu Province. Equipping with machineries and production facilities, the new plant has gradually commenced production since December 2005.

二零零五年，本集團「快速反應」的靈活營運策略以及優質的產品繼續得到客戶的肯定和支持，使銷售大幅增加。

本集團生產之紗線及坯布主要銷售予中國17個省市，包括江蘇省、浙江省、廣東省、山東省及上海。面料則主要銷售予出口地區，包括歐洲、北美洲、南韓、香港、孟加拉等多個地區。二零零五年本集團於每個主要市場之銷售額均錄得顯著的增長，中國市場銷售額同比上升34.1%至人民幣1,718,400,000元，而出口市場銷售額亦較往年上升46.8%至人民幣197,500,000元。

於二零零五年二月份，本集團以年租金人民幣3,960,000元向江蘇銀宇三聯集團有限公司租賃位於江蘇省徐州一個設有五間車間的生產基地，為本集團增加87,000個紗錠及84台無梭織機。該生產基地於進行設備提升後迅速於四月份投入生產。同時，本集團亦擴張旗下徐州天虹銀豐紡織有限公司的生產設備，為生產棉包芯紗線增加12,600個紗錠，新增設備已於二零零五年三月份正式投入運作。此外，本集團於二零零五年三月在江蘇省徐州市睢寧縣動工興建配備100,000個紗錠的全新生產基地，年內積極為新廠房裝備機器及生產設施，並自二零零五年十二月逐漸開始投產。

FINANCIAL REVIEW

Turnover

The Group's turnover comprises the sales of yarn, grey fabrics and garment fabrics. Market demand for the Group's products continued to surge in 2005. In addition, the Group fulfilled more orders with its newly expanded capacity, leading to a substantial growth in turnover. Turnover by products are shown as below,

		2005 二零零五年 RMB'000 人民幣千元	% of total 佔總額 百分比	2004 二零零四年 RMB'000 人民幣千元	% of total 佔總額 百分比	change between 2005 and 2004 二零零五年 對比 二零零四年 之轉變
Yarn	紗線	947,947	49.6%	537,241	37.9%	76.4%
Grey fabrics	坯布	742,193	38.7%	704,653	49.8%	5.3%
Garment fabrics	面料	201,949	10.5%	137,381	9.7%	47.0%
Other textile products	其他紡織品	23,876	1.2%	36,577	2.6%	-34.7%
Total	總營業額	1,915,965	100%	1,415,852	100%	

The Group's spandex stretch textile products were well-received by the market, in which sales attributable to spandex stretch yarn were the greatest contribution to the total turnover. Furthermore, the Group further expanded its garment fabrics to more overseas and domestic customers, in which sales of garment fabrics increased by 47% as compared to 2004.

Gross profit and gross profit margin

As the Group has enhanced production efficiency, increased production in high value-added product and adopted centralised procurement and sales to realize economies of scale, the Group's gross profit margin further improved to 17.9% (2004: 16.2%). The Group's gross profit was also increased in line with the increase in turnover and improvement in margin, surging 49.4% to RMB342.7 million.

財務回顧

營業額

本集團的營業額主要來自銷售紗線、坯布及面料。二零零五年市場對本集團的產品需求甚殷，加上本集團利用擴充之產能滿足增加的訂單，因此產品營業額錄得大幅增長。下列為各種產品的營業額表現：

本集團的氨綸彈力產品一直受市場熱烈歡迎，氨綸彈力紗線對本集團的營業額貢獻最多。此外，本集團將其面料產品進一步擴展至更多海外及本地客戶，使面料的銷售額較二零零四年增加47%。

毛利及毛利率

全賴本集團積極提升生產效率、增加生產高附加值產品，以及透過中央採購及銷售等體現規模效益，使本集團的毛利率於二零零五年進一步提升至17.9%（二零零四年：16.2%）。本集團的毛利亦隨著營業額及邊際利潤的增加大幅攀升49.4%至人民幣342,700,000元。

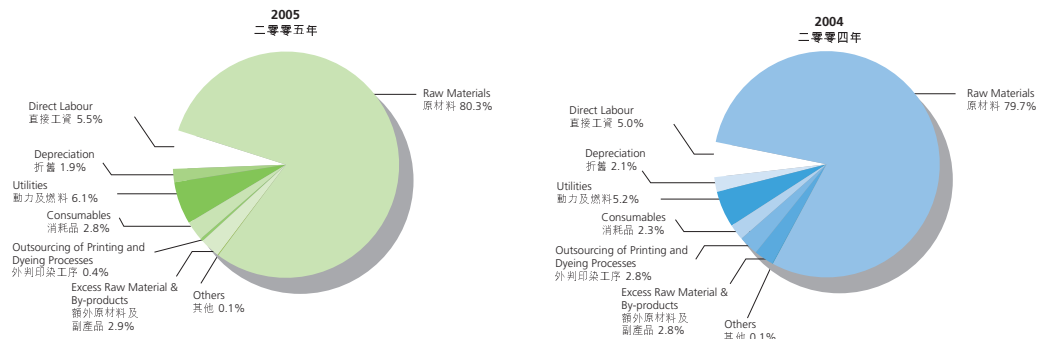
Cost Structure

For the year ended 31 December 2005, the Group's cost of goods sold increased by 32.6% from RMB1,186.5 million for 2004 to RMB1,573.3 million as a result of the increase in sales. Set out below is a breakdown of the Group's cost of goods sold.

成本架構

截至二零零五年十二月三十一日止年度，由於本集團的銷售量大幅攀升，銷售成本亦由二零零四年的人民幣1,186,500,000元上升32.6%至人民幣1,573,300,000元。以下為本集團銷售貨品成本分析。

Cost of Sales Breakdown 銷售成本分析



Selling and Marketing Costs

For the year ended 31 December 2005, the Group's selling and marketing costs amounted to RMB50.9 million, representing an increase of 70.9% as compared to previous year. Included in the selling and marketing costs for 2005, transportation costs amounted to RMB32.1 million (or 63.1% of the total selling and marketing costs), representing an increase of 69.8% as compared to RMB18.9 million for 2004. The increase in transportation costs was partly due to the general increase in transportation service charges during the year and partly due to the increase in sales to customers in distant area, such as Guangdong and Shandong provinces. In addition, staff costs, marketing and promotion expenses also increased substantially in 2005 as a result of expansion of the Group's domestic and export sales team and extra efforts on the marketing activities.

銷售及市場推廣成本

截至二零零五年十二月三十一日止年度，本集團的銷售及市場推廣成本達到人民幣50,900,000元，較去年增加70.9%。於二零零五年銷售及市場推廣成本當中，運輸成本為人民幣32,100,000元（或佔銷售及市場推廣成本總額63.1%），較二零零四年的人民幣18,900,000元增加69.8%。運輸成本上升部份是由於年內運輸服務收費普遍上漲，再加上於距離較遠地區，特別是廣東及山東省的銷售增加。此外，僱員成本、市場推廣開支及推廣開支在二零零五年亦明顯增加，這是由於本集團本土及出口銷售隊伍擴充及於市場推廣活動付出額外努力所致。

General and Administrative Expenses

The Group's general and administrative expenses amounted to RMB90.0 million for the year ended 31 December 2005, representing an increase of 86.7% as compared to RMB48.2 million for 2004. The increase was mainly due to the increase in staff costs as a result of building the Group's regional headquarter in Shanghai with well diversified talents. The Directors believe that Group has established an international standard operating platform providing core-competence for the Group's further expansion.

Finance Costs

The Group's finance costs amounted to RMB19.9 million for the year ended 31 December 2005, representing an increase of RMB6.7 million as compared to RMB13.2 million for 2004. The increase in finance costs was due to the increase in overall bank borrowings for the Group's business expansion during the year.

Cash flow

Net cash generated from operating activities
Net cash used in investing activities
Net cash generated from financing activities
Cash and cash equivalents at 31 December

經營業務所得現金淨額
投資業務所耗現金淨額
融資業務所得現金淨額
於十二月三十一日的
現金及現金等值物

2005 二零零五年 RMB'000 人民幣千元	2004 二零零四年 RMB'000 人民幣千元 Restated 重列
173,919	180,124
(259,804)	(74,105)
98,612	103,149
259,972	247,245

一般及行政開支

本集團於截至二零零五年十二月三十一日止年度的一般及行政開支為人民幣90,000,000元，與二零零四年的人民幣48,200,000元比較，上升86.7%，增幅主要是由於本集團在上海建立地區總部所招聘而引致僱員成本上升。董事相信，本集團已建立達到國際標準的營運平台，為日後進一步發展提供最核心力量。

財務費用

本集團於截至二零零五年十二月三十一日止年度的財務費用達到人民幣19,900,000元，較二零零四年的人民幣13,200,000元增加人民幣6,700,000元。財務費用增加是由於本集團於年內業務擴充而使整體銀行借款增加所致。

現金流量

For the year ended 31 December 2005, net cash inflow generated from operating activities amounted to RMB173.9 million. The decrease in net cash generated from operating activities was mainly due to the increase in the Group's inventory level of cotton in order to meet the production requirement of the newly constructed 100,000 spindles yarn factory in Suining Xuzhou. The net cash used in investing activities amounted to RMB259.8 million, which was mainly used for the machinery and other capital expenditures of the new yarn factory. During the year under review, the net cash generated from financing activities amounted to RMB98.6 million, representing the net increase in bank borrowings, including a 7-year term loan of US\$9 million borrowed by Xuzhou Texhong Times Textile Co., Ltd. from DEG-Deutsche Investitions-UND Entwicklungsgesellschaft MBH for the partial financing of the capital expenditure of the new yarn factory, the remaining part was mainly financed by the Group's IPO proceeds.

Liquidity and financial resources

As at 31 December 2005, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB268.8 million (as at 31 December 2004: RMB254.4 million).

As a result of business expansion in 2005, the Group's inventories and trade and bills receivables increased by RMB102.3 million and RMB30.2 million to RMB266.7 million and RMB162.2 million, respectively (as at 31 December 2004: RMB164.4 million and RMB132.0 million). The inventory turnover days and trade receivable turnover days were 50 days and 28 days respectively, compared to 46 days and 30 days in 2004.

To cater for working capital requirement as a result of the Group's business expansion in 2005, the Group's short-term bank borrowings increased by RMB50.9 million to RMB278.8 million as at 31 December 2005, as compared to RMB227.9 million as at 31 December 2004.

As at 31 December 2005, the Group's financial ratios were as follows:

Current ratio
Debt to equity ratio
Net debt to equity ratio

流動比率
負債權益比率
負債淨額權益比率

	2005 二零零五年	2004 二零零四年
Current ratio	1.33	1.49
Debt to equity ratio	0.47	0.40
Net debt to equity ratio	0.11	0

截至二零零五年十二月三十一日止年度，本集團錄得經營業務所得現金淨額約人民幣173,900,000元。經營業務所得現金淨額減少主要是由於本集團增加了棉花儲備，以配合徐州睢寧新廠房的100,000個紗線的生產規模。本集團投資業務所耗現金淨額為人民幣259,800,000元，主要是用作新紗線廠房的機器設備及資本開支。於回顧年度內，本集團融資業務所得現金淨額約為人民幣98,600,000元，亦即銀行貸款增加淨額，當中包括一項為期七年之貸款9,000,000美元，該項貸款由徐州天虹時代紡織有限公司向DEG-Deutsche Investitions-UND Entwicklungsgesellschaft MBH借入，以提供新紗線廠房之部份資本開支，其餘部份則主要以本集團之首次公開發售所得款項撥付。

流動資金及財務資源

於二零零五年十二月三十一日，本集團之銀行及現金結餘（包括已抵押銀行存款）為人民幣268,800,000元（於二零零四年十二月三十一日：人民幣254,400,000元）。

隨著業務於二零零五年擴充，本集團之存貨及應收貿易及票據款項分別增加人民幣102,300,000元及人民幣30,200,000元至人民幣266,700,000元及人民幣162,200,000元（於二零零四年十二月三十一日：人民幣164,400,000元及人民幣132,000,000元）。存貨周轉日數及應收賬款周轉日數分別為50日及28日，而二零零四年則分別為46日及30日。

為應付本集團於二零零五年擴充業務所需之營運資金，本集團於二零零五年十二月三十一日之銀行貸款增加人民幣50,900,000元至人民幣278,800,000元，於二零零四年十二月三十一日則為人民幣227,900,000元。

於二零零五年十二月三十一日，本集團之財務比例如下：

Borrowings

As at 31 December 2005, the Group had outstanding short-term borrowings of RMB278.8 million (2004: RMB227.9 million). The short-term borrowings were raised mainly for working capital purpose and business expansion in 2005. All of the short-term borrowings were denominated in Renminbi and bearing interest at rates ranging from 5.0% to 8.0% per annum (2004: 5.0% to 8.0% per annum). The loan period ranged from 6 months to 1 year.

Of the total short-term borrowings, RMB139.9 million (2004: RMB119.4 million) was unsecured and the remaining balance was secured.

The secured assets as at 31 December 2005 were summarized below:

- Certain land use rights, buildings and machinery and equipment with an aggregated net book value of RMB158.9 million (2004: RMB154.4 million);
- Bank balance of RMB Nil (2004: RMB7.1 million);
- Bills receivable of RMB Nil (2004: RMB2 million).

In addition, as at 31 December 2005, the Group had an outstanding unsecured long term bank loan of RMB72.9 million (2004: Nil), which was denominated in US\$ and bearing interest at a LIBOR based floating interest rate.

Foreign exchange risk

The Group mainly operates in the PRC. Most of the Group's transactions, assets and liabilities are dominated in RMB. RMB is not freely convertible into other foreign currencies.

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

Capital expenditure

For the year ended 31 December 2005, the capital expenditure of the Group amounted to RMB294.4 million (2004: RMB81.6 million), mainly for the addition of plants and machinery for the newly constructed factory in Suining, Xuzhou.

借貸

於二零零五年十二月三十一日，本集團共有尚未償還短期貸款約人民幣278,800,000元（二零零四年：人民幣227,900,000元）。短期貸款用作本集團營運資金及支付二零零五年業務拓展所需。所有短期貸款以人民幣作貨幣單位，其年利率為5.0%至8.0%（二零零四年：年利率為5.0%至8.0%）；貸款期為6個月至1年。

在短期貸款總額中，人民幣139,900,000元為無抵押貸款（二零零四年：人民幣119,400,000元），其餘為有抵押貸款。

於二零零五年十二月三十一日，抵押資產包括：

- 若干土地使用權、建築物及機器及設備，賬面淨值總額為人民幣158,900,000萬元（二零零四年：人民幣154,400,000元）；
- 人民幣零元銀行結餘（二零零四年：7,100,000元）；
- 人民幣零元應收票據（二零零四年：2,000,000元）。

此外，於二零零五年十二月三十一日，本集團未償還的無抵押長期銀行貸款為人民幣72,900,000元（二零零四：零），其以美元計值及付息（按倫敦銀行同業拆息率為基礎的浮動利率計算）。

外匯風險

本集團主要於中國營運。本集團大部份交易、資產及負債均以人民幣計值。人民幣不可自由轉換成其他外幣。

外匯風險為來自於未來海外營運中的商業貿易、已確認資產及負債及投資淨額。本集團進行定期檢討及監察其外匯風險程度以管理其外匯風險。

資本開支

截至二零零五年十二月三十一日止年度，本集團的資本開支約人民幣294,400,000元（二零零四年：人民幣81,600,000元），主要為購買生產基地及為徐州睢寧新建廠房配置機器。

Contingent liabilities

As at 31 December 2005, the Group had contingent liabilities of RMB21.9 million (as at 31 December 2004: RMB21.9 million). Such amount represented government grants obtained from the Management Committee of Taizhou Economic Development Zone in connection with the Group's purchase of a piece of land in Taizhou, Jiangsu Province, the PRC.

Human Resources

As at 31 December 2005, the Group had 10,015 full-time staff (as at 31 December 2004: 6,634). New employees were recruited to cater for the Group's business expansion during the year. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to nurturing a learning and sharing culture in the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contributions of all functional divisions comprising of skilled and motivated staff.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio, providing shareholders with a reasonable return. The Board has recommended a final dividend of HK\$0.065 per share in respect of the financial year ended 31 December 2005 to shareholders whose names appeared on the register of members on 11 May 2006. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the dividend for the year represents a 33% payout of the net profit for the year.

或然負債

於二零零五年十二月三十一日，本集團的或然負債為人民幣21,900,000元（於二零零四年十二月三十一日：人民幣21,900,000元），該金額乃關於本集團購買一幅位於中國江蘇省泰州的土地而獲泰州經濟開發區管理委員會發放的政府撥款。

人力資源

於二零零五年十二月三十一日，本集團有全職員工10,015名（於二零零四年十二月三十一日：6,634名）。新聘僱員為應付本集團於年度內擴充之業務。本集團向其員工提供具競爭力的酬金計劃。此外，合資格員工亦可按其個人及本集團之表現獲授酌情花紅及購股權。本集團之成功有賴由技巧純熟且士氣高昂的員工組成各職能部門，故此本集團致力於集團內孕育學習與分享的文化，重視員工之個人培訓及發展，以及建立團隊。

股息政策

董事擬維持長遠而穩定的派息比率，務求為股東爭取合理回報。董事會建議就截至二零零五年十二月三十一日止財政年度向名列於二零零六年五月十一日股東名冊內之股東派發每股0.065港元之末期股息。待股東於即將舉行之股東週年大會上批准後，年內股息佔年內純利33%。