

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



魏橋紡織股份有限公司 Weiqiao Textile Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

PLACING AND PUBLIC OFFER

Number of Offer Shares	: 249,770,000 H Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 24,977,000 H Shares (subject to adjustment)
Number of Placing Shares	: 224,793,000 H Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: not more than HK\$8.55 per Offer Share (payable in full on application and subject to refund) and expected to be not less than HK\$6.15 per Offer Share
Nominal value per H Share	: RMB1.00
Stock code	: 2698

Global Co-ordinator, Sponsor, Bookrunner and Lead Manager

BNP PARIBAS PEREGRINE

Co-Lead Managers

BOCI Asia Limited	China Southern Securities (Hong Kong) Limited
CLSA Asia-Pacific Markets	Kim Eng Securities (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited	

Co-Managers

CM-CCS Securities Limited	Guotai Junan Securities (Hong Kong) Limited
SinoPac Securities (Asia) Limited	Tai Fook Securities Company Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in appendix VIII to this prospectus, has been registered by the Companies Registry in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Company is incorporated, and its management office and production facilities are located, in the PRC as a joint stock limited company. Potential investors in the Company should be aware of the differences in the legal, economic and financial systems between the mainland of the PRC and Hong Kong and that there are different risk factors relating to investments in companies incorporated in the PRC. Potential investors should also be aware that the regulatory framework in the mainland of the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and certain risk factors are outlined in appendix V to this prospectus and in the section headed "Risk factors", respectively.

The Offer Price is expected to be determined by agreement between the Company and BNP Paribas Peregrine (on behalf of the Underwriters) at or before 9:00 a.m. on 19th September, 2003 or such later date as may be agreed by the Company and BNP Paribas Peregrine but in any event no later than 2:00 p.m. on 20th September, 2003.

The Offer Price will be not more than HK\$8.55 per Offer Share and is expected to be not less than HK\$6.15 per Offer Share. BNP Paribas Peregrine (on behalf of the Underwriters, and with the consent of the Company) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between the Company and BNP Paribas Peregrine (on behalf of the Underwriters) on or before 20th September, 2003, the Share Offer will not become unconditional and will lapse.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Offer Shares, BNP Paribas Peregrine, on behalf of the Underwriters, has the right in certain circumstances, subject to the reasonable opinion of BNP Paribas Peregrine, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreement at any time prior to 10:00 a.m. (Hong Kong time) on the business day immediately preceding the date on which dealings in the H Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be 24th September, 2003). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus.

* The Company is registered in Hong Kong as an overseas company under the English name "Weiqiao Textile Company Limited".

15th September, 2003

EXPECTED TIMETABLE

2003
(Note 1)

Latest time for lodging WHITE and YELLOW application forms and giving electronic application instructions to HKSCC	12:00 noon on Thursday, 18th September
Application lists open (Note 2)	11:45 a.m. on Thursday, 18th September
Application lists close (Note 2)	12:00 noon on Thursday, 18th September
Price Determination Time	9:00 a.m. on Friday, 19th September
Announcement of the Offer Price and the indication of the levels of interest in the Placing, the results of applications in respect of the Public Offer and the basis of allotment under the Public Offer (with successful applicants' identification document numbers, where applicable) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, 23rd September
Despatch of H Share certificates and refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Public Offer on or before (Note 3)	Tuesday, 23rd September
Dealings in H Shares on the Stock Exchange to commence on	Wednesday, 24th September

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 18th September, 2003, the application lists will not open and close on that day. Further information is set out on page 183 in the paragraph headed "Effect of bad weather conditions on the opening of the application lists" under the section headed "How to apply for H Shares" in this prospectus.
- (3) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.

EXPECTED TIMETABLE

Applicants who apply on **WHITE** application forms for 500,000 H Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques and (where applicable) H Share certificates in person from the Company's Hong Kong share registrar may collect refund cheques and (where applicable) H Share certificates in person from the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 23rd September, 2003. Identification and (where applicable) authorisation documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** application forms for 500,000 H Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their H Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** application forms for H Shares is the same as that for **WHITE** application form applicants.

Applicants who apply for H Shares by giving electronic application instructions to HKSCC should refer to the paragraph headed "If your application for the Public Offer Shares is successful (in whole or in part)" under the section headed "Terms and conditions of the Public Offer" in this prospectus for details.

Uncollected H Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further information is set out in the paragraph headed "Refund of your money — additional information" under the section headed "Terms and conditions of the Public Offer" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the application forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer.

	<i>Page</i>
Expected timetable	i
Summary	1
Definitions	13
Glossary of technical terms	25
Risk factors	28
Waivers from compliance with the Listing Rules	43
Information about this prospectus and the Share Offer	45
Directors, Supervisors, senior management and parties involved in the Share Offer	55
Corporate information	61
Industry overview	62
Business	
Overview	73
Principal strengths	74
History and development	76
Group structure	85
Products	89
Accreditation	90
Production	91
Procurement	97
Inventory control	101
Quality control	102
Marketing and sales	103
Research and development	107
Competition	109
Environmental protection	109
Connected transactions	110

CONTENTS

	<i>Page</i>
Directors, Supervisors, senior management and staff	131
Share capital	140
Substantial shareholders	142
Financial information	143
Future plans and use of proceeds	163
Underwriting	166
Structure of the Share Offer	172
How to apply for H Shares	179
Terms and conditions of the Public Offer	190
Appendices	
I — Accountants' report	208
II — Additional financial information	260
III — Profit forecast	263
IV — Property valuation	267
V — Summary of relevant PRC and Hong Kong laws and regulations	286
VI — Summary of the Articles of Association	330
VII — Statutory and general information	364
VIII — Documents delivered to the Registrar of Companies and available for inspection	384

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed "Risk factors". You should read that section carefully before you decide to invest in the Shares.

THE COTTON TEXTILE INDUSTRY HIGHLIGHTS

The global market

Global cotton textile fibre (i.e., end-products) consumption increased from about 18.9 million tons in 1996 to 20.0 million tons in 2001. With an increasing demand for cotton textile fibre products, global cotton yarn and cotton fabric production increased from about 16.7 million tons and 9.8 million tons in 1996 to about 19.5 million tons and 11.3 million tons in 2001 respectively, representing a CAGR of about 3.1% and 2.9% respectively.

The PRC market

The PRC was ranked number one in the world:

- in terms of cotton production

In the 2001/02 marketing year, cotton production in the PRC was about 5.3 million tons, about 24.8% of the total production worldwide.

- in terms of cotton textile products production

In 2001, cotton yarn and cotton fabric production in the PRC was about 7.0 million tons and 3.2 million tons respectively, about 35.9% and 28.3% of the total production worldwide respectively.

In the seven years from 1996 to 2002, CAGR of yarn and fabric production volume in the PRC cotton textile industry was about 8.9% and 7.6% respectively.

The liberalisation and globalisation of the textile industry will release the PRC textile industry from quotas restrictions by WTO members by 31st December, 2004. The PRC allows other WTO members, until 31st December, 2008, to limit the growth of textile imports from the PRC to 7.5% each year. Removal of cotton import quotas will enable the cotton textile enterprises in the PRC to reduce their cotton purchase costs, expand their purchasing channels and thereby strengthen their competitiveness.

By leveraging on its overall advantages including the abundant textile resources, low labour cost, vast domestic market and stable economic growth, the PRC cotton textile industry will continue to grow.



SUMMARY

BUSINESS OVERVIEW

The Group is a non state-owned PRC enterprise principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim.

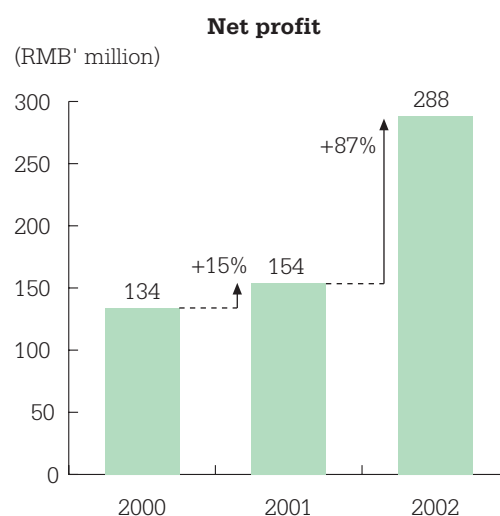
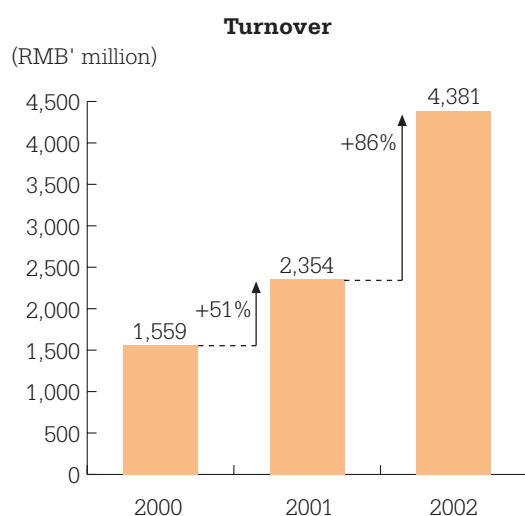
In 2002, the Group was ranked number one:

- in terms of turnover in the cotton textile industry of the PRC (Source: 中國棉紡織行業協會 (China Cotton Textile Association)); and
- in terms of the aggregate export value of cotton yarn and grey fabric in the PRC (Source: 中國紡織品進出口商會 (China Chamber of Commerce for Import and Export of Textiles)).

As an integrated cotton textile producer, the Group produces grey fabric and denim from its own cotton yarn. The Group has a comprehensive range of products comprising more than 2,000 models, which are marketed under its well-known  and  trademarks to overseas and domestic customers.

The Group's production facilities are located in Zouping County, Binzhou City and Weihai City of Shandong Province, the PRC and close to the Beijing-Shanghai Expressway and Qingdao Port, an important port in the PRC. The Group had an aggregate production capacity of about 265,000 tons of cotton yarn, 462 million metres of grey fabric and 157 million metres of denim in 2002. With the acquisition of Industrial Park (whose trial run commenced in September 2002 and full operation is expected to take place around the end of the third quarter of 2003), the Directors expect the Group will have an aggregate production capacity of about 441,000 tons of cotton yarn, 844 million metres of grey fabric and 157 million metres of denim in 2003.

The Group has experienced a significant growth in turnover and net profit during the three years ended 31st December, 2002:



SUMMARY

During the Track Record Period, export sales to overseas market accounted for slightly more than 50% of the Group's turnover.

Internationally, the Group is dealing with over 300 overseas customers covering over 20 countries and regions. Its customers include market leaders (such as Fountain Set Group and Texwinca Group) and well-known traders (such as Itochu, Nichimen and Marubeni) in the textile industry.

Domestically, the Group has an extensive coverage of nearly 2,000 domestic customers in the PRC, many of which are located in Southern and Eastern China, where many large-scale downstream textile and garment companies locate.

In the PRC, given the rapid and sustained economic growth and its huge business opportunity, the Directors are of the view that the PRC is ever-becoming the global manufacturing hub attracting the inflow of many manufacturers from different industries around the world. Coupled with the gradual removal of quotas restrictions by Europe and the U.S. following PRC's accession into the WTO, the Directors believe that the PRC cotton textile industry will acquire stronger competitiveness and the Group, as the largest cotton textile manufacturer in the PRC in terms of turnover in 2002, will likely be benefited therefrom.

PRINCIPAL STRENGTHS

The Directors believe that the Group has the following principal strengths:

1. **Economies of scale**

The Directors believe that, having a high production capability and output to support the largest sales in cotton yarn and grey fabric in the PRC, the Group has achieved economies of scale to provide the Group with competitive edges in reducing its unit fixed production cost and pursuing a more flexible pricing policy.

2. **High product quality**

All of the cotton yarns produced by the Group are knotless and, if so specified by the customers, could reach the 2001 Uster Statistics category of 25-5%. The Group uses its cotton yarn to produce grey fabric and denim products. The Group's grey fabric product could reach the standard of Four Point System if so specified by the customers. Among the approximately 1,400 grey fabric and denim models, higher value-added models account for a significant proportion of such products.

SUMMARY

3. **Abilities to deliver quality products in bulk quantity on a timely basis**

Quick response to production has become increasingly important in the textile business. The Group has a comprehensive product range comprising more than 2,000 product models and is able to produce quality products in bulk quantity on a timely basis resulting from its high production capacity. The Directors believe that such abilities have enabled the Group to compete successfully in overseas market and will continue to be a key driving force for its further expansion in the future.

4. **Effective customer network**

The PRC is the largest textile and clothing producing country in the world and the Group has a broad customer network covering more than 20 provinces and municipalities directly under the central government of the PRC. Its overseas market extends across more than 20 countries and regions around the world. The Group has also established specific production lines dedicated for some of its international customers, such as Texwinca Group and Itochu to provide attentive services and to enhance closer customer relationship. Luteng Textile, a joint venture with Itochu and Profit Rich Company, was also set up in September 2002 to principally engage in the production and sale of spandex core-spun yarn.

5. **Highly experienced and committed management and staff**

Most of the Group's management personnel have extensive experience in the cotton textile industry and are familiar with the market environment. The Group also has a stable team of efficient and committed staff. In addition, the personal interests of a number of the executive Directors and management Shareholders are aligned with that of the Group's since they will hold about 13.5% interests in the share capital of the Company in aggregate immediately after completion of the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option).

GROWTH STRATEGIES AND FUTURE PLANS

The Group has a mission to become the largest cotton textile producer in the world by adopting the strategies and implementing the action plans as follows:

1. **Product portfolio expansion and existing production technology upgrade**

The Group has realized a rapid growth in the last three years from the expansion of its production capacity and product portfolio. To maintain its competitiveness and achieve further growth, the Group plans to introduce more advanced production equipment to expand its product portfolio to have more high value-added cotton textile products including high-end cotton yarn, high-end plied yarn, textile products for home use, high-end surface materials and denim for apparel and high-end geotextiles. In addition, the Group intends to upgrade its existing production technology by the introduction of blowroom machines, combers and double twisting machines.

SUMMARY

2. **Market expansion**

With the huge market potential in the PRC, the Group will continue to consolidate the relationship with existing customers in the PRC. Internationally, the Group will actively penetrate into other Asian countries, Europe, the U.S., Africa and the Commonwealth of Independent States with the liberalisation and globalisation of the textile industry. From time to time, the Directors will assess the market demand and if necessary, implement expansion plan to install additional production capacity.

3. **Research and development enhancement**

With the establishment of a technology development centre by the end of 2004, the Group plans to have more advanced instrumental devices and more professional staff for the research and development of cotton textile products and improvement of spinning and weaving techniques.

4. **Information system upgrade**

The Group intends to upgrade its information systems in management, operation and accounting aspects to improve operating efficiency and thus enhance its competitiveness.

5. **Related business acquisition**

The Directors will evaluate the possibility of acquiring cotton textile related businesses to strengthen the Group's competitive position in the industry.

6. **Further improving the quality of human resources**

To cope with the future development, the Group will provide additional training to its staff and will recruit additional workforce in the production, research and development, marketing and support functions.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the net proceeds of the Share Offer will finance the Group's capital expenditures and business expansion, strengthen the Group's capital base and improve its financial position.

The net proceeds of the Share Offer after deducting related expenses, and assuming an Offer Price of HK\$7.35 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.15 and HK\$8.55 per H Share) and that the Over-allotment Option is not exercised at all, are estimated to amount to about HK\$1,754.7 million. To effect the

SUMMARY

Group's future plans (details of which are more particularly set out in the paragraph headed "Future plans and prospects" under the section headed "Future plans and use of proceeds" in this prospectus), the Group currently intends to apply the net proceeds as follows:

- (1) about RMB430 million (equivalent to HK\$406 million) for expanding product portfolio to have more high value-added cotton textile products namely:
 - about RMB325 million (equivalent to HK\$307 million) for high-end surface materials principally for apparel;
 - about RMB55 million (equivalent to HK\$52 million) for high-end geotextiles; and
 - about RMB50 million (equivalent to HK\$47 million) for high-end denim;
- (2) about RMB100 million (equivalent to HK\$94 million) for upgrading the existing production technology;
- (3) about RMB50 million (equivalent to HK\$47 million) for establishing a technology development centre;
- (4) about RMB36 million (equivalent to HK\$34 million) for upgrading the information systems;
- (5) about RMB600 million (equivalent to HK\$566 million) for repaying bank loans;
- (6) about RMB106 million (equivalent to HK\$100 million) for pursuing acquisition opportunities related to the Group's cotton textile manufacturing business; and
- (7) the remaining amount will be used as general working capital.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of about HK\$268.4 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by the Group as general working capital. To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, the Directors presently intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with licensed banks or financial institutions or used to purchase money-market instruments. Further information in relation to the use of proceeds of the Share Offer is set out in the section headed "Future plans and use of proceeds" in this prospectus.

SUMMARY

TRADING RECORD

The following is a summary of the Group's consolidated results for the Track Record Period extracted from the accountants' report set out in appendix I to this prospectus. The results were prepared on the basis of presentation as set out in the above mentioned accountants' report.

	Year ended 31st December,			Three-month period ended
	2000	2001	2002	31st March, 2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover (<i>Note 1</i>)	1,559,284	2,353,637	4,380,923	1,255,068
Cost of sales	<u>(1,290,790)</u>	<u>(2,007,486)</u>	<u>(3,729,267)</u>	<u>(1,011,738)</u>
Gross profit	268,494	346,151	651,656	243,330
Other revenue	2,018	23,748	49,303	12,014
Selling and distribution costs	(26,165)	(40,794)	(78,565)	(33,676)
Administrative expenses	(9,490)	(27,212)	(40,189)	(16,227)
Other operating expenses	<u>(11,577)</u>	<u>(9,470)</u>	<u>(19,641)</u>	<u>(4,622)</u>
Profit from operating activities	223,280	292,423	562,564	200,819
Finance costs	<u>(16,500)</u>	<u>(46,009)</u>	<u>(101,506)</u>	<u>(29,882)</u>
Profit before tax	206,780	246,414	461,058	170,937
Tax	<u>(73,057)</u>	<u>(88,977)</u>	<u>(169,627)</u>	<u>(61,765)</u>
Profit before minority interests	133,723	157,437	291,431	109,172
Minority interests	<u>—</u>	<u>(3,397)</u>	<u>(3,191)</u>	<u>(1,000)</u>
Net profit from ordinary activities attributable to shareholders	<u>133,723</u>	<u>154,040</u>	<u>288,240</u>	<u>108,172</u>
Proposed final dividend	<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
Earnings per Share				
— basic (RMB) (<i>Note 2</i>)	<u>0.66</u>	<u>0.76</u>	<u>1.01</u>	<u>0.20</u>

SUMMARY

Notes:

(1) **Turnover**

Turnover represents the invoiced value of the goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

The following is an analysis of the turnover by major product segments:

	Year ended 31st December,		Three-month period ended	
	2000	2001	2002	31st March, 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cotton yarn	1,031,496	1,118,096	2,076,927	599,242
Grey fabric	505,786	863,914	1,417,589	482,464
Denim	<u>22,002</u>	<u>371,627</u>	<u>886,407</u>	<u>173,362</u>
	<u>1,559,284</u>	<u>2,353,637</u>	<u>4,380,923</u>	<u>1,255,068</u>

(2) **Earnings per Share**

The calculation of basic earnings per Share is based on the net profit from ordinary activities attributable to shareholders for the three years ended 31st December, 2002 and the three months ended 31st March, 2003 of about RMB133,723,000, RMB154,040,000, RMB288,240,000 and RMB108,172,000, respectively, and the weighted average of about 202,040,000, 202,040,000, 284,897,973 and 530,770,000 Shares in issue during the respective periods.

For additional information on the track record of the Group, please refer to the section headed “Financial information” and appendices I and II to this prospectus.

SUMMARY

FORECAST FOR THE YEAR ENDING 31ST DECEMBER, 2003

Forecast consolidated profit after tax and minority
interests but before extraordinary items (*note 1*)not less than
RMB520 million
(about HK\$490.6 million)

Forecast earnings per Share
— weighted average (*note 2*)RMB0.868
(about HK\$0.819)

— fully diluted (*note 3*)RMB0.666
(about HK\$0.628)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31st December, 2003 has been prepared are summarised in appendix III to this prospectus.
- (2) The calculation of forecast earnings per Share on a weighted average basis is based on the forecast consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31st December, 2003 and a weighted average number of 599,200,137 Shares expected to be in issue during the year. It does not take into account any H Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31st December, 2003 and a total of 780,540,000 Shares (comprising 530,770,000 Domestic Shares and 249,770,000 H Shares) in issue during the entire year. The calculation of the forecast earnings per Share takes no account of any H Shares which may fall to be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the number of Shares in issue would become 818,005,500 Shares (comprising 530,770,000 Domestic Shares and 287,235,500 H Shares), and the forecast earnings per Share on the fully diluted basis mentioned above would be about RMB0.636 (about HK\$0.600).

SUMMARY

SHARE OFFER STATISTICS

	Based on an Offer Price of HK\$6.15 per H Share	Based on an Offer Price of HK\$8.55 per H Share
Market capitalisation of the H Shares (<i>note 4</i>)	HK\$1,536.1 million	HK\$2,135.5 million
Forecast price/earnings multiple		
— weighted average (<i>note 5</i>)	7.5 times	10.4 times
— fully diluted (<i>note 6</i>)	9.8 times	13.6 times
Adjusted net tangible asset value per Share (<i>note 7</i>)	HK\$4.049	HK\$4.798

Notes:

- (4) The calculation of the market capitalisation of the H Shares is based on 249,770,000 H Shares in issue immediately after completion of the Share Offer but does not take into account any H Shares which may be issued upon exercise of the Over-allotment Option.
- (5) The calculation of forecast price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis for the year ending 31st December, 2003 of about RMB0.868 (about HK\$0.819) at the respective Offer Price of HK\$6.15 and HK\$8.55 per H Share, and based on the assumption set out in note 2 above.
- (6) the calculation of forecast price/earnings multiple on a fully diluted basis is based on the fully diluted forecast earnings per Share of RMB0.666 (about HK\$0.628) at the respective Offer Price of HK\$6.15 and HK\$8.55 per H Share assuming that the Over-allotment Option is not exercised and the 780,540,000 Shares (comprising 530,770,000 Domestic Shares and 249,770,000 H Shares) were in issue since 1st January, 2003.
- (7) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial Information — Adjusted net tangible assets” in this prospectus and on the basis of 780,540,000 Shares in issue at the respective Offer Price of HK\$6.15 and HK\$8.55 per H Share immediately following completion of the Share Offer but without taking into account any H Shares which may fall to be issued upon the exercise of the Over-allotment Option.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$7.35 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.15 and HK\$8.55 per H Share), the adjusted net tangible assets of the Group will be increased to about RMB4.822 (about HK\$4.549) per H Share, while the earnings per Share on a weighted average and on a fully diluted basis will be diluted correspondingly to about RMB0.853 (about HK\$0.805) per H Share and about RMB0.636 (about HK\$0.600) per H Share. However, the Directors believe that this will not have any material effect to the benefits of shareholders of the Company.

SUMMARY

RISK FACTORS

The operations of the Group involve certain risks, a summary of which is set out in the section headed “Risk factors” of this prospectus. These risks can be classified as follows:

Risks relating to the Group

- Reliance on Holding Company to supply electricity and steam
- Relationship with major customers
- Reliance on key management personnel
- Sustainability of growth
- Credit risks
- Inventory turnover
- Future dividend policy
- Investment and use of proceeds
- Value-added tax refund policy by the PRC government
- Tax relief in purchasing overseas lint cotton
- Extensive transactions with related parties in the past
- Staff benefits

Risks relating to the industry

- Cotton price
- Competition
- Possible trade barriers
- Product substitutes
- Industry policies
- Environmental matters

SUMMARY

Risks relating to the PRC

- Political structure and economic considerations
- Foreign exchange considerations
- Legal and other regulatory considerations

Risks relating to the H Shares

- Liquidity
- Possible volatility of share price
- Dilution of shareholders' interest as a result of additional equity fund raising
- World politics and economies

Other risks

- Forward-looking statements may not be accurate
- Certain information based on unaudited figures and assumptions
- Certain statistics from unofficial publications

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms”.

“Articles of Association”	The articles of association of the Company adopted on 12th February, 2003, as amended pursuant to a resolution duly passed at the extraordinary general meeting of the Company held on 28th August, 2003.
“Binzhou Weiqiao”	濱州魏橋紡織有限公司 (Binzhou Weiqiao Textile Company Limited [#]) (renamed as 濱州魏橋置業有限公司 (Binzhou Weiqiao Property Company Limited [#]) on 2nd June, 2003), a limited liability company established on 15th February, 1999 with registered capital of RMB20,000,000 and owned as to 75% by Holding Company and 25% by 鄒平縣黛溪山莊有限公司 (Zouping County Daixi Shanzhuang Co. Ltd [#]), previously engaged in the production and sale of cotton textile products, and currently engaged in the development and sale of properties.
“BNP Paribas Peregrine” or “Sponsor” or “Global Co-ordinator”	BNP Paribas Peregrine Capital Limited acting as the global co-ordinator, sponsor, bookrunner and lead manager of the Share Offer, a corporation deemed licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities & Futures Ordinance.
“CAGR”	Compound annual growth rate.
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC.
“CCASS Broker Participant”	A person admitted to participate in CCASS as a broker participant.
“CCASS Custodian Participant”	A person admitted to participate in CCASS as a custodian participant.
“CCASS Investor Participant”	A person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation.
“CCASS Participant”	A CCASS Broker Participant or CCASS Custodian Participant or a CCASS Investor Participant.
“CIETAC”	China International Economic and Trade Arbitration Commission.

DEFINITIONS

“Companies Ordinance”	The Companies Ordinance, Chapter 32 of the Laws of Hong Kong.
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited), a joint stock limited company established in the PRC on 6th December, 1999. The Company was originally known as 山東魏橋紡織股份有限公司 (Shandong Weiqiao Textile Company Limited [#]) before its name was changed to 魏橋紡織股份有限公司 on 19th February, 2003. The Company has been registered in Hong Kong as an oversea company in the name of 魏橋紡織股份有限公司, also known as Weiqiao Textile Company Limited.
“Company Management Shareholders”	12 members of the management of the Company who in aggregate hold 19.86% of equity interests in the Company upon completion of the Reorganisation and immediately prior to the Share Offer, the names of whom are set out in the paragraph headed “Group structure” in the section headed “Business” in this prospectus.
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission).
“Director(s)” or “Board of Directors”	Director(s) or the board of directors of the Company.
“Domestic Shares”	Ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi.
“First Production Area”	The Group’s first production area (currently including Luteng Textile) with a total site area of about 230,600 sq.m. established in the 1990s to engage in the production of cotton yarn, grey fabric and denim. It comprises a total of 43 buildings with a total gross floor area of about 264,600 sq.m. for production workshops, warehouses and other ancillary purposes located at First Production Area, 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province.
“Foreign Shares”	Ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi.

DEFINITIONS

“Fountain Set Group”	Fountain Set (Holdings) Limited (福田實業(集團)有限公司), a company whose shares are listed on the Stock Exchange, and its subsidiaries or any of them which is a customer of the Group and is otherwise unrelated to the Group.
“GAAP”	Generally accepted accounting principles.
“GDP”	Gross domestic product.
“Group”	The Company and its subsidiaries.
“HKIAC”	Hong Kong International Arbitration Centre.
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited.
“HKSCC Nominees”	HKSCC Nominees Limited.
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong.
“Holding Company”	山東魏橋紡織集團有限責任公司 (Shandong Weiqiao Textile Group Company Limited [#]), a limited liability company incorporated on 14th April, 1998 with registered capital of RMB800,000,000. It is the controlling shareholder of the Company and owned as to 90% by ZCSU and 10% by Holding Company Management Shareholders.
“Holding Company Management Shareholders”	Eight members of the management of Holding Company who in aggregate hold 10% of equity interests in Holding Company following the Reorganisation, the names of whom are set out in the paragraph headed “Group structure” in the section headed “Business” in this prospectus.
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC.
“H Shares”	Overseas listed Foreign Shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, for which an application has been made for listing and permission to deal on the Stock Exchange, and which are subscribed for and traded in Hong Kong dollars.

DEFINITIONS

“ICAC”	International Cotton Advisory Committee, an association of more than 40 governments of cotton producing and consuming countries.
“IMF”	International Monetary Fund.
“Industrial Park”	濱州魏橋科技工業園有限公司 (Binzhou Weiqiao Technology Industrial Park Co. Ltd. [#]), a limited liability company established by Holding Company and Binzhou Weiqiao on 26th November, 2001 in the PRC with registered capital of RMB300,000,000 and owned as to 97% by the Company and 3% by Holding Company.
“Itochu”	Itochu Corporation, a company incorporated in Japan, which is a customer of the Group and a substantial shareholder of Luteng Textile.
“Latest Practicable Date”	1st September, 2003, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication.
“Listing”	Listing of the H Shares on the Stock Exchange.
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
“Luteng Textile”	山東魯藤紡織有限公司 (Shandong Luteng Textile Co., Ltd. [#]), a sino-foreign equity joint venture enterprise incorporated on 12th September, 2002 in the PRC with registered capital of US\$9,790,000 and owned as to 75% by the Company, 10.2% by Itochu and 14.8% by Profit Rich Company.
“Mandatory Provisions”	到境外上市公司章程必備條款 (the Mandatory Provisions for the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27th August, 1994 by the Securities Commission and the State Restructuring Commission, as amended, supplemented or otherwise modified from time to time.
“Marubeni”	Marubeni Corporation, a company incorporated in Japan, which is a customer of the Group and is otherwise unrelated to the Group.

DEFINITIONS

“MOFTEC”	中華人民共和國對外貿易經濟合作部 (the Ministry of Foreign Trade and Economic Co-operation of the PRC) whose function was removed according to a resolution passed by the NPC on 10th March, 2003 and incorporated into 商務部 (Ministry of Commerce).
“Mr. Zhang”	Mr. Zhang Shiping, founder and currently a non-executive director of the Company and the chairman of Holding Company, who is also the father of Mr. Zhang Bo (chairman and executive director of the Company) and Ms. Zhang Hongxia (general manager and executive director of the Company).
“Nichimen”	Nichimen Corporation, a company incorporated in Japan, which is a customer of the Group and is otherwise unrelated to the Group.
“No. 2 Oil and Cotton Factory”	鄒平縣第二油棉廠 (Zouping No. 2 Oil and Cotton Factory [#]), a collectively owned enterprise established on 1st August, 1989. It has been restructured into 鄒平縣第二油棉有限責任公司 (Zouping No. 2 Oil and Cotton Company Limited [#]) on 7th August, 2000 with registered capital of RMB5,962,000 and owned as to 44.15% by ZCSU and 55.85% by the Employee Shareholding Union of Zouping No. 2 Oil and Cotton Company Limited.
“No. 4 Oil and Cotton Factory”	鄒平縣第四油棉廠 (Zouping No. 4 Oil and Cotton Factory [#]), a collectively owned enterprise established on 15th April, 1994. It has been restructured into 鄒平福海油脂工業有限公司 (Zouping Fuhai Oil Industrial Company Limited [#]) on 13th July, 2000 with registered capital of RMB10,000,000 and owned as to 51% by ZCSU and 49% by the Employee Shareholding Union of Zouping Fuhai Oil Industrial Company Limited.
“No. 5 Oil and Cotton Factory”	鄒平縣第五油棉廠 (Zouping No. 5 Oil and Cotton Factory [#]), a collectively owned enterprise established on 12th October, 1998 with registered capital of RMB5,000,000 and wholly owned by ZCSU.
“No. 6 Oil and Cotton Company”	鄒平縣第六油棉有限責任公司 (Zouping No. 6 Oil and Cotton Company Limited [#]), a company with limited liability established on 14th November, 1997 with registered capital of RMB10,000,000 and owned as to 51% by ZCSU and 49% by the Employee Shareholding Union of Zouping No. 6 Oil and Cotton Company Limited.

DEFINITIONS

“Non-Competition Agreement”	The non-competition agreement, entered into between Holding Company, ZCSU and the Company on 25th August, 2003.
“NPC” or “National People’s Congress”	中華人民共和國全國人民代表大會 (the National People’s Congress of the PRC), the national legislative body of the PRC.
“Offer Price”	The final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) of not more than HK\$8.55 and expected to be not less than HK\$6.15, such price to be agreed upon by the Company and BNP Paribas Peregrine (on behalf of the Underwriters) at or before the Price Determination Time.
“Offer Shares”	The Public Offer Shares and the Placing Shares.
“Over-allotment Option”	The option granted by the Company to BNP Paribas Peregrine pursuant to which the Company may be required to issue up to an additional aggregate of 37,465,500 new H Shares (representing 15% of the H Shares initially being offered under the Share Offer) to cover over-allocations in the Placing, details of which are described in the section headed “Structure of the Share Offer”.
“Over-allotment Shares”	Up to an aggregate of 37,465,500 new H Shares which may be allotted and issued by the Company upon the exercise of the Over-allotment Option.
“Parent Group”	Holding Company, its subsidiaries and associates (excluding the Group).
“Placing”	The conditional placing of the Placing Shares by the Placing Underwriters with professional and institutional investors at the Offer Price, as further described in the section headed “Structure of the Share Offer”.

DEFINITIONS

“Placing Shares”	The 224,793,000 new H Shares being initially offered at the Offer Price pursuant to the Placing together, where relevant, with any additional H Shares issued pursuant to the exercise of the Over-allotment Option, the number of Placing Shares is further subject to re-allocation as described in the section headed “Structure of the Share Offer”.
“Placing Underwriters”	BNP Paribas Peregrine, BOCI Asia Limited, China International Capital Corporation (Hong Kong) Limited, CLSA Limited, Nomura International (Hong Kong) Limited, Shenyin Wanguo Capital (H.K.) Limited, DBS Asia Capital Limited, ING Bank N.V. and Kim Eng Securities (Hong Kong) Limited.
“Planning Commission”	中華人民共和國國家發展計劃委員會 (the State Development and Planning Commission of the PRC), which was restructured into 中華人民共和國國家發展和改革委員會 (the State Development and Reform Commission of the PRC) according to a resolution passed by the NPC on 10th March, 2003.
“PRC”	People’s Republic of China. Unless the context otherwise requires, references in this prospectus to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.
“PRC Company Law”	中華人民共和國公司法 (the Company Law of the PRC), enacted by the fifth session of the Standing Committee of the Eighth National People’s Congress on 29th December, 1993, and became effective on 1st July, 1994, as amended, supplemented or otherwise modified from time to time.
“PRC government”	The central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities).
“Price Determination Time”	On or about 9:00 a.m. on 19th September, 2003 (Hong Kong time) on which the Offer Price is determined, or such later time as the Company and BNP Paribas Peregrine (on behalf of the Underwriters) may agree, but in any event not later than 2:00 p.m. on 20th September, 2003.

DEFINITIONS

“Production Area(s)”	The five production areas of the Group, namely the First Production Area, the Second Production Area, the Third Production Area, Industrial Park and Weihai Weiqiao, or any of them.
“Profit Rich Company”	Profit Rich Company (保恒豐公司), a business registered in Hong Kong, which is a substantial shareholder of Luteng Textile.
“Promoter(s)”	Holding Company, Mr. Zhang, No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company or any of them.
“Public Offer”	The issue and offer of the Public Offer Shares to the public in Hong Kong for subscription at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the related application forms.
“Public Offer Shares”	The 24,977,000 new H Shares being initially offered by the Company for subscription at the Offer Price pursuant to the Public Offer (subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus).
“Public Offer Underwriters”	BNP Paribas Peregrine, BOCI Asia Limited, China Southern Securities (Hong Kong) Limited, CLSA Limited, Kim Eng Securities (Hong Kong) Limited, Shenyin Wanguo Capital (H.K.) Limited, CM-CCS Securities Limited, Guotai Junan Securities (Hong Kong) Limited, SinoPac Securities (Asia) Limited and Tai Fook Securities Company Limited.
“Regulation S”	Regulation S under the U. S. Securities Act.
“Reorganisation”	The reorganisation arrangements undergone by the Company and Holding Company in preparation for the Listing as described in the paragraph headed “Reorganisation” under the section headed “Business” in this prospectus.
“RMB” and “Renminbi”	The lawful currency of the PRC.
“Rule 144A”	Rule 144A under the U.S. Securities Act.

DEFINITIONS

“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC), the PRC governmental agency responsible for matters relating to foreign exchange administration.
“Second Production Area”	One of the Group’s production areas with a total site area of about 148,100 sq.m. which commenced full production in November 2001. It comprises 25 buildings with a total gross floor area of about 352,500 sq.m. for production workshops, warehouses and other ancillary purposes located at Second Production Area, 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province adjacent to the First Production Area.
“Securities Commission”	中華人民共和國國務院證券委員會 (the Securities Commission of the State Council of the PRC), which was rescinded in March, 1998, whilst its functions were assumed by CSRC thereafter.
“Securities and Futures Ordinance”	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time.
“Securities Law”	中華人民共和國證券法 (the Securities Law of the PRC), enacted by the Standing Committee of the National People’s Congress on 29th December, 1998 and which became effective on 1st July, 1999, as amended and supplemented from time to time.
“SETC”	中華人民共和國國家經濟貿易委員會 (the State Economic and Trade Commission of the PRC) whose function was removed according to a resolution passed by the NPC on 10th March, 2003. Its function was incorporated into 商務部 (Ministry of Commerce) and partly into 中華人民共和國國有資產監督管理委員會 (Commission of Management of State Owned Asset of the PRC).
“SFC”	Securities and Futures Commission.
“Share Offer”	The Public Offer and the Placing.
“Shares”	Shares of the Company, including both Domestic Shares and Foreign Shares.

DEFINITIONS

“Special Regulations”	國務院關於股份有限公司境外募集股份及上市的特別規定 (the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies) promulgated by the State Council on 4th August, 1994, as amended, supplemented or otherwise modified from time to time.
“State”	The government authorities authorized to perform the specified duties in the name of the PRC according to the PRC laws, including without limitation the NPC and the State Council.
“State Council”	中華人民共和國國務院 (the State Council of the PRC).
“State Plans”	Plans devised and approved and implemented by the State relating to the economic and social development of the PRC.
“State Restructuring Commission”	中華人民共和國國家經濟體制改革委員會 (the State Commission for the Restructuring of the Economic System of the PRC), abolished in 1998 pursuant to the 國務院關於機構設置的通知 (Notice of the State Council regarding organisation structure), and its functions were merged into 中華人民共和國國務院經濟體制改革辦公室 (the Restructuring Office of the State Council of the PRC).
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited.
“Supervisor(s)”	Member(s) of the supervisory committee of the Company.
“Texwinca Group”	Texwinca Holdings Limited (德永佳集團有限公司), a company whose shares are listed on the Stock Exchange, and its subsidiaries or any of them, which is a customer of the Group and is otherwise unrelated to the Group.
“Third Production Area”	One of the Group’s production areas with a total site area of about 250,500 sq.m. which commenced full production in October 2002. It comprises 32 buildings with a total gross floor area of about 320,700 sq.m. for production workshops, warehouses and other ancillary purposes located at Xi Wai Huan Road West, Weiqiao Town, Zouping County, Shandong Province.

DEFINITIONS

“Track Record Period”	The three years ended 31st December, 2002 and the three months ended 31st March, 2003.
“Underwriters”	The Placing Underwriters and the Public Offer Underwriters.
“Underwriting Agreement”	The conditional underwriting and placing agreement dated 11th September, 2003 entered into between, among others, the Company, Holding Company and the Underwriters.
“U.S.” or “United States”	The United States of America.
“U. S. Securities Act”	Unites States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time.
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States.
“WCAI”	威海民航實業有限公司 (Weihai Civil Aviation Industrial Company Limited [#]) a substantial shareholder of Weihai Weiqiao and limited liability company established on 19th May, 2000 with registered capital of RMB20,000,000, and owned as to 75% by Weihai Civil Aviation and 25% by 威海市民用航空管理局工會委員會 (the Staff Shareholding Committee of the Labour Union of Weihai Civil Aviation [#]).
“Weihai Civil Aviation”	威海市民用航空管理局 (Weihai Administration of Civil Aviation [#]), a state-owned enterprise established in 1998 with registered capital of RMB160,680,000, which has an indirect interest in Weihai Weiqiao through its shareholding in WCAI.
“Weihai Weiqiao”	威海魏橋紡織有限公司 (Weihai Weiqiao Textile Company Limited [#]), a limited liability company established on 25th July, 2001 in the PRC with a registered capital of RMB148,000,000 and owned as to 87.2% by the Company and 12.8% by WCAI.
“Weilian Print”	山東魏聯印染有限公司 (Shandong Weilian Printing & Dyeing Company Limited [#]), a sino-foreign equity joint venture enterprise established in the PRC on 10th September, 1996 with a registered capital of US\$6,000,000 and owned as to 65% by Holding Company and 35% by an independent third party.

DEFINITIONS

“Weiqiao Bleach”	山東魏橋漂染有限公司 (Shandong Weiqiao Bleaching-dyeing Company Limited [#]), a sino-foreign equity joint venture enterprise established in the PRC on 3rd August, 2001 with a registered capital of US\$4,580,000 and owned as to 40% by Holding Company and 60% by an independent third party.
“Weiqiao Dyeing”	山東位橋染織有限公司 (Shandong Weiqiao Dyeing Company Limited [#]), a sino-foreign equity joint venture enterprise established in the PRC on 27th July, 1994 with a registered capital of US\$13,800,000 and owned as to 60% by Holding Company and 40% by an independent third party.
“WTO”	World Trade Organisation.
“ZCSU”	鄒平縣供銷合作社聯合社 (Zouping County Supply and Marketing Cooperation Union [#]), the ultimate controlling shareholder of the Company, is a collectively-owned enterprise (established with the assistance of local government in 1949 in Zouping County of the Shandong Province, the PRC to assist the cooperation of peasants) and not a government body. It obtained a body corporate business licence on 24th June, 1991 and has the status as an independent legal person of a body corporate. Following completion of the Reorganisation, ZCSU owns 90% of equity interests in Holding Company.
“km”	kilometres.
“kWh”	kilowatt hour.
“sq.m.”	square metres.

[#] for identification only

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars at an exchange rate of RMB1.06=HK\$1.00 or RMB8.28=US\$1.00 respectively for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars or US dollars at such rates or any other exchange rates.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“air splicer (空氣捻結器)”	An appliance in which a jet of compressed air from the splicing nozzle tangles and twists the yarn ends together to form knotless yarn.
“CCIC”	China National Import & Export Commodities Inspection Corporation Certification Center (中國進出口商品檢驗總公司質量認證中心), an institution authorized by the Certification Supervisory Committee of the PRC (中國國家認證監督委員會) to issue ISO 9001 certification in the PRC.
“combed yarn (精梳紗)”	A stronger, finer and smoother yarn, production of which requires an additional process known as combing which further straightens the cotton fibres and extracts foreign matter.
“corduroy (燈芯絨)”	A woven fabric having vertical cut pile stripes or cords with a velvet-like nap.
“core-spun yarn (包芯紗)”	A yarn made by twisting fibres around a filament or a previously spun yarn covering the core yarn.
“Cotlook A”	An index to measure the world price of cotton. It is the average of the 5 least expensive of 14 styles of cotton types traded in North Europe. The index is constructed and published daily by Cotlook Limited, a private information dissemination company based in Liverpool, the United Kingdom.
“cotton fabric (棉布)”	Cloth which is made from cotton yarns woven together.
“cotton yarn (棉紗)”	Cotton thread used in knitting and weaving which is produced from lint cotton after the spinning process. For the purpose of this prospectus cotton yarn includes cotton polyester blend and other blend.
“counts (支數)”	A numerical designation of yarn size indicating the relationship of length to weight, i.e., the number of units of length (i.e., 840 yards) per pound of cotton yarn.
“CQC”	China Quality Certification Centre (中國質量認證中心), an institution authorized by the Certification Supervisory Committee of the PRC (中國國家認證監督委員會) to issue ISO 14001 certification in the PRC.

GLOSSARY OF TECHNICAL TERMS

“denim (牛仔布)”	A kind of fabric woven from coloured warp and white weft used for trousers, work clothes, etc.
“Four Point System”	A standard issued by the American Society for Testing and Materials in relation to fabrics.
“geotextiles (土工布)”	Manufactured fibre products made into fabrics of various constructions for use in a wide variety of civil engineering applications.
“grey fabric (坯布)”	Gray fabric or greige fabric, an unprocessed form of cotton fabric just off the loom or knitting machine.
“ISO”	International Organization for Standardization, a worldwide federation of national standards bodies from all over the world.
“ISO 9001”	The international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176) in 1987, the most recent upgraded version of which: ISO 9001 2000 was released in December 2000. Many countries, including Britain and U.S. have adopted ISO 9001 as national quality standards.
“ISO 14001”	The international standards of environmental management formulated by ISO/TC 207.
“knotless yarn (無接頭紗)”	A kind of yarn which does not have knots.
“lint cotton (皮棉)”	Ginned cotton packed tightly into bales.
“marketing year”	The 12-month period, generally commencing from the beginning of a new harvest, during which a crop is marketed. For cotton, it is 1st August to 31st July of the following year.
“modal fibre (莫代爾纖維)”	A kind of natural environment-friendly fibre which is harmless to human. Modal fibre has a higher level of hygroscopicity than that of cotton and is soft and shiny. Knitted fabrics and surface fabrics made from it feel like silk.
“open-end spun yarn (氣流紡紗)”	A kind of yarn that is made by the process of open-end spinning.

GLOSSARY OF TECHNICAL TERMS

“ring spinning (環錠紡)”	A traditional spinning technique using a revolving traveller to insert twist in a strand of fibres. The yarn is wound on as the speed of rotation of the package is greater than that of the traveller.
“slub yarn (竹節紗)”	A kind of yarn that contains slubs, making it look like bamboo.
“spandex (氨綸)”	A kind of highly elastic manufactured fibre in which the fibre-forming substance is a long chain synthetic polymer composed of at least 85% of a segmented polyurethane.
“spindle (錠)”	An upright, slender and rotating rod on textile machinery. When the spindle is rotated at high speed, a bobbin placed on the spindle receives the yarn.
“tailings (短絨)”	Cotton fibres of less than 16 millimetres long obtained during the yarn spinning process and the production of lint cotton.
“warp (經紗)”	The set of yarn in a woven fabric that runs parallel to the selvage at right angles with the weft.
“weft (緯紗)”	The set of yarn in a woven fabric that runs from selvage to selvage at right angles to the warp.
“2001 Uster Statistics Category of 25-5% (2001烏斯特 統計值25-5%水平)”	The Uster Statistics 2001 published in 2001 by Zellweger Uster of Switzerland, who collects samples from major textile industry segments in the world for testing and compiles therefrom a range of reference figures which permit a classification of fibres and yarns with regard to world production. The Uster Statistics are one of the world's most comprehensive, quality reference figures which are often used as quality benchmarks or platform for yarn contracts and product specifications. The most important element of the Uster Statistics is the nomograms with the percentile curves which refer to the percentage of the total world production equal to or exceeding the measurement value given for a particular yarn description. “2001 Uster Statistics Category of 25-5%” referred to in this prospectus means the range within the 25th and the 5th percentile in respect of mass variations and imperfections of yarn as published in the Uster Statistics 2001.

RISK FACTORS

Prospective investors should consider carefully all of the information set out in this prospectus and, in particular, the following risks and special consideration factors before making any investment decision in relation to the Group.

RISKS RELATING TO THE GROUP

Reliance on Holding Company to supply electricity and steam

Other than Weihai Weiqiao, all electricity and steam consumed by the Group have been supplied by Holding Company. For the year ended 31st December, 2002, the expenses incurred for the consumption of electricity and steam accounted for about 4% of the Group's costs of sales. Hence, the future relationship between the Group and Holding Company and the continuous performance by Holding Company of its obligations under the relevant supply of electricity and steam agreement with the Group will be critical to the Group's business. If Holding Company suspends or discontinues the provision of electricity or steam to the Group due to its own or whatever reason, or causes any interruption in the supply of electricity or steam to the Group, the Group would then have to rely on the contingency plans as set out in the paragraph headed "Consumption of electricity and steam" in the section headed "Business" in this prospectus. If for any reason, such contingency plans cannot be carried out accordingly, it would have an adverse effect on the Group's business operations and profitability, especially when the Group might not be able to obtain instant supply of electricity and steam from any third parties at a price similar to that as charged by Holding Company.

Relationship with major customers

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the Group's five largest customers accounted for about 46%, 27%, 27% and 17% of the Group's total turnover respectively. During the same period, sales to the single largest customer represented about 26%, 8%, 10% and 5% of the Group's total turnover respectively.

For each of the three years ended 31st December, 2002, Holding Company was the largest customer of the Group while Weiqiao Dyeing, a 60% owned subsidiary of Holding Company, was the fourth largest customer of the Group.

Should the "Discontinuing transactions" as described under the section headed "Related party transactions" of the accountants' report as set out in appendix I to this prospectus be excluded, the Group's five largest customers would have accounted for about 30%, 22%, 21% and 17% of the Group's turnover for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively; while the Group's largest customer would have accounted for about 9%, 8%, 5% and 5% of the Group's turnover for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively. Weiqiao Dyeing would have been the third (for the year 2000 and 2001) and the fifth (for the year 2002) largest customer of the Group.

RISK FACTORS

The Group has not entered into any long-term supply agreement with any of its major customers. If any of such customers terminates its business relationship with the Group, it might have an adverse effect on the Group's financial performance and profitability.

Reliance on key management personnel

The Group's success is, to a certain extent, dependent upon the expertise and experience of its key management personnel. Each of the executive Directors has entered into a service contract with the Company on 25th August, 2003 for a term of three years. Unless terminated in accordance with the terms provided therein, all of the service contracts are renewable by mutual agreement upon expiration. If any of its key management personnel ceases to participate in the Group's management in the future, it might have an adverse effect on the Group's business operation and profitability.

Sustainability of growth

For each of the three years ended 31st December, 2002, the Group's turnover amounted to about RMB1,559 million, RMB2,354 million and RMB4,381 million respectively, representing a year-on-year growth rate of about 51.0% and 86.1% respectively. For each of the three years ended 31st December, 2002, the Group's net profit amounted to about RMB134 million, RMB154 million and RMB288 million respectively, representing a year-on-year growth rate of about 15% and 87% respectively. The Directors attribute such increase in turnover and profitability in part to the Group's ability to maintain its product quality, expand its production capacity and increase the sales of high value-added products and benefit from the positive development in the PRC cotton textile industry. The Group has also managed to build and maintain good relationship with its major customers and to establish itself as a dominant player in the cotton textile industry worldwide. However, there is no assurance that such growth rate could be sustained. In the event that the Group is unable to maintain those measures or suffers pricing pressure, the Group might have stagnant or negative growth, hence impairing its business operation and profitability.

Credit risks

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the Group's credit sales accounted for about 32%, 32%, 36% and 32% of the total sales respectively. Although most of these sales were made to overseas customers by way of letter of credit payable on sight or usance (usually between 30 days and 45 days), prospective investors should note that there is no assurance that the Group will not relax the existing credit policies to enhance its market position when competition intensifies. Further, the Group cannot ensure that its financial position would not be adversely affected if the rate of recovery of its trade receivables becomes worse.

RISK FACTORS

Inventory turnover

The Group's inventory balance includes raw materials, work-in-progress, semi-finished goods, finished products, consigned materials for processing, consumables and raw materials in transit, representing about 26.3%, 13.4%, 13.5% and 18.1% of the Group's total asset value as the 31st December, 2000, 2001 and 2002 and 31st March, 2003. Following the increase in the Group's production capability and sales during the Track Record Period, the level of inventory rose. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the Group's inventory turnover was about 73 days, 64 days, 73 days and 110 days respectively. Prospective investors should note that if the Group experiences a decrease in sales, it might have an adverse effect on the Group's inventory turnover and therefore its working capital position.

Future dividend policy

Dividends declared by the Company were nil, about RMB131.3 million, nil and nil for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively.

There is no assurance that the Company's current intention to distribute 35% of the distributable annual earnings as dividends can be achieved. The amount of dividends to be declared will be subject to, among others, the discretion of the Directors, the Group's earnings, financial conditions, cash requirements and availability of other relevant factors. The past dividend distribution record as referred to in the accountants' report as set out in appendix I to this prospectus should not be used as a reference or basis to determine the amount of dividend to be declared in the future.

Investment and use of proceeds

Some of the proceeds to be raised from the Share Offer will be applied to expand the product portfolio and to establish a technology development centre. The integration of the new technologies into the existing infrastructure and the entry into the new textile product markets might bring risks to the Group.

In addition, the Group's business plans, as set out in the section headed "Future Plans and Use of Proceeds", are drawn up based on assumptions. There is no assurance that these plans will be implemented eventually. If there are changes in the cotton textile market, or if the implementation of the plans is delayed due to any unforeseeable events, the success of the Group's investment projects will be affected, thus bringing investment risks to the Group. Therefore, in the event of the occurrence of any unforeseeable events, the use of proceeds from the Share Offer may differ from those stated in the section headed "Future Plans and Use of Proceeds". Any part of the net proceeds from the Share Offer not being

RISK FACTORS

used as intended would then be applied to other business plans or new plans of the Group, or be placed into bank accounts (which include but are not limited to short-term bank deposit accounts), provided that the Directors consider such a move would be in the interest of the Group.

Value-added tax refund policy by the PRC government

The PRC government has implemented value-added tax (“VAT”) refund policy on exports pursuant to which most cotton textile exports, depending on product type, are granted a VAT refund at the current rate of 15% or 17%. As the Group is currently exempted from payment of VAT on exports and purchases of overseas lint cotton used in the production of exports, it is entitled under such policy at the current refund rate to a refund of VAT which has been actually paid. During each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the amount which the Group was entitled to receive under such VAT refund policy was about RMB87.7 million, RMB165.2 million, RMB94.2 million and nil respectively. Should the rate of VAT refund be reduced for whatever reasons so that the benefits currently enjoyed by the Group be diminished, or the current VAT refund policy be discontinued, the Group’s competitiveness against its overseas competitors and profitability in terms of export sales would be adversely affected.

Tax relief in purchasing overseas lint cotton

The Group is currently entitled to apply for an exemption from tariff and value-added tax in respect of imported lint cotton used in the production of yarn or fabric for export. To be qualified for such relief, the Group must meet certain criteria (including that the export of yarn or fabric must take place within a specified period of time from the import of lint cotton). If the PRC government imposes more stringent criteria or the Group fails to meet any of the stipulated criteria, the profitability of the Group may be affected.

Extensive transactions with related parties in the past

Extensive related party transactions were recorded during the Track Record Period since there was no complete segregation of businesses between the Group and Parent Group prior to completion of the Reorganisation. All the inter-group transactions between the Group and Parent Group were identified and treated as related party transactions.

Given the close relationship between the parties, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Although most of such transactions will be discontinued and all those remaining ongoing connected transactions will be conducted on terms fair and reasonable to the Group upon Listing, prospective investors of the H Shares should, in reading the financial statements of the Group, take note of such related party transactions conducted during the Track Record Period and read the section headed “Additional financial information” as set out in appendix II to this prospectus.

RISK FACTORS

Staff benefits

As from 1st January, 2003, the Group, other than Weihai Weiqiao, has provided certain basic insurance (namely endowment, medical and unemployment insurance) for its employees with city and township residency (about 7,300 out of a total number of about 62,000 employees of the Group as at 31st March, 2003) pursuant to the employee insurance implementation plans formulated by local governments. The rate of the Group's (other than Weihai Weiqiao) contribution towards such endowment, medical and unemployment insurance is 20%, 6% and 2% of the wages of such employees respectively. Although there is no mandatory requirement under existing PRC laws and regulations compelling enterprises to provide such insurance to employees without city and township residency, the Group (other than Weihai Weiqiao) is required by the local governments to extend the medical insurance coverage to all employees before the end of 2004. However, no directive or guideline has yet been issued in relation to the details of such extension including the computation basis of the respective amounts to be contributed by the Group and the employees. If the schedule is adhered to and the Group is required to provide medical insurance to the additional employees described above, the Group's profitability in 2005 and thereafter may be affected.

In addition, should the local governments further expand the scope of the employee insurance plans (such as requiring endowment and/or unemployment insurance to be provided to employees without city and township residency) or speed up their implementation, the Group's operating cost would increase thereby affecting its competitiveness and profitability.

RISKS RELATING TO THE INDUSTRY

Cotton price

Lint cotton is the most important raw material for the Group's production. It accounts for a substantial percentage of the Group's costs of sales. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, lint cotton accounted for about 75%, 74%, 75% and 75% of the Group's costs of sales of cotton yarn; while cotton yarn accounted for about 74%, 79%, 79% and 80% of the Group's cost of sales of grey fabric. Cotton yarn also accounted for about 78%, 72%, 74% and 75% of the Group's cost of sales of denim.

Prospective investors should note that any fluctuation in cotton price might affect the costs and profitability of the Group.

RISK FACTORS

Competition

The business entry barrier to the cotton textile industry is low as cotton yarn, grey fabric and denim are traditional and basic textile products which do not require much high-level technology to produce and small production of these products does not require intensive capital investment. The Group has therefore been facing intense domestic and foreign competition in terms of production and sales.

In the overseas market, the cotton textile enterprises located in the central and southern Asian cotton textile producing regions (for example, India and Pakistan) where there are abundant and also cheap supply of cotton and labour, have been very competitive in terms of costs. The increasingly self-contained U.S. cotton textile market makes it more difficult to expand into the U.S. market. Any intensification of the competition could have an adverse impact on the Group's business operations and profitability.

Possible trade barriers

Although tariffs and import quotas on textile products among WTO members (which include PRC) will be gradually removed by 31st December, 2004, other WTO members may introduce other forms of trade barriers, may initiate negotiations in respect of export value of textiles and clothing by the PRC until 31st December, 2008, and may impose a limit of 7.5% each year on the growth of textile and clothing imports from the PRC. The Group's export business and development will therefore remain restricted until there is free trade, if at all, established for all cotton textile producers in the global market-place.

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

Product substitutes

From 1991 to 2001, whilst consumption of cotton fibres (as finished products) in developed countries increased, consumption of cotton fibres in developing countries decreased. On the whole, consumption of cotton fibres (as finished products) is growing at a pace which is slower than that of non-cotton fibres (as finished products). The Directors consider that this is mainly attributable to the decrease in production costs and the great varieties of non-cotton fibres that have been able to satisfy market needs, hence becoming a substitute for cotton fibres. The growth of the non-cotton textile market might adversely affect the Group's future development and profitability.

RISK FACTORS

Industry policies

Since 1988, the State has adopted a number of measures to reform the cotton spinning industry in the PRC with a view to reducing and eliminating 10,000,000 obsolete spindles in about three years' time.

With its accession into the WTO in December 2001, the PRC has implemented import tariffs and quota administrative measures, i.e., imposing a lower tariff (1%) on imports of cotton within the quota, whereas imports of cotton exceeding the quota will not be subject to such preferential tariff treatment. From PRC's entry into the WTO to 2004, the amount of imported cotton enjoying preferential tariffs will be increased from 743,000 tons to 894,000 tons. Any change in the State policies for the textile industry and cotton import could affect the Group's material cost, production capability and profitability.

Environmental matters

Under the current PRC national and local environmental laws and regulations, a waste disposal fee is imposed on enterprises for over-discharge of pollutants, and a fine would be levied against illegal discharge of pollutants causing environmental pollution. Business enterprises might be required to shut down their production facilities which have caused serious environmental problems. Production projects under construction have to be specifically designed to use environmentally friendly facilities. The Group has been granted the necessary permit by the relevant PRC environmental protection authority for the treatment and discharge of waste water produced during the manufacture of denim.

Prospective investors should note that there is no assurance that the PRC government will not amend the prevailing environmental laws and regulations. If the PRC government imposes additional or stricter environmental laws and regulations, it might increase the operating costs of the Group and have an adverse impact on the Group's profitability.

RISKS RELATING TO THE PRC

Political structure and economic considerations

The economy of the PRC differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development ("OECD") in such respects as structure, government involvement, level of development, growth rate, capital re-investment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the economy of the PRC was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the PRC economy. Annual and five-year State Plans are adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a

RISK FACTORS

substantial portion of the PRC's industrial output, in general, the PRC government is reducing the level of direct control which it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. There can be no assurance that the PRC government will continue to pursue a policy of economic reform. The Group may not in all cases be able to capitalize on the economic reform measures adopted by the PRC government.

The Group's operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Furthermore, a significant portion of the economic activities in the PRC is export-driven at present and, therefore, is affected by development in the economies of the PRC's principal trading partners and other export driven economies.

Foreign exchange considerations

As part of its currency reforms, the PRC abolished its two-tier exchange rate system with effect from 1st January, 1994 and replaced it with a unified controlled floating exchange rate system based on the supply and demand in the market. Under this system, the People's Bank of China ("PBOC") quotes a daily exchange rate for Renminbi to U.S. dollars based on the market rate for foreign exchange transactions conducted by the designated banks in the PRC foreign exchange market during the preceding trading day. The PBOC also quotes the exchange rates of Renminbi to other foreign currencies based on the international market rate. As the exchange rate is based primarily on market forces, the exchange rates for Renminbi against other currencies, including U.S. dollars and HK dollars, are susceptible to movements based on external factors.

Since the aforesaid reform in 1994, the exchange rate for Renminbi against U.S. dollars has been relatively stable. However the PRC government has recently been under pressure from its trading partners for an appreciation of Renminbi given the strong growth in PRC's exports. Although the PRC government has reiterated its intention to maintain the stability of its currency, there can be no assurance that Renminbi is not subject to appreciation or that other measures will not be introduced (such as a reduction in rate of export tax refund) to address the concerns of its trading partners.

RISK FACTORS

Also, there can be no assurance that Renminbi is not subject to devaluation. Any devaluation of Renminbi could adversely affect the value of an investment in the H Shares and of any cash dividends on the H Shares since the Group's revenues will be received, and its profits and dividends will be expressed, in Renminbi while the dividends to be declared to holders of H Shares will be settled in Hong Kong dollars by the Company.

Currently, the Group has revenues, expenses and liabilities in currencies other than Renminbi. The Group should have sufficient foreign exchange to pay dividends to shareholders outside the PRC and its foreign exchange liabilities. The source of funding will be from the Group's operating cashflow. However, the Group's business and operations might be adversely affected if it is unable to obtain on a timely basis sufficient foreign currencies at acceptable rates to meet its foreign currency needs.

Prospective investors should also note that fluctuations in the exchange rate of Renminbi may affect sales of export goods and the ability of the Group to settle U.S. dollar denominated invoices in relation to the procurement of imported raw materials and machinery and equipment. In this case, the Group's business and profitability might be adversely affected accordingly. The Directors are not aware of any other law or regulation that would restrict the Group in meeting its foreign currency requirements arising from its trading activities. The Group has neither entered into any agreements nor purchased any instruments to hedge the Group's exchange rate risks although the Group might do so in future.

Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demand of a particular enterprise in full. There is also no assurance that shortages in the availability of foreign currency will not restrict the Company's ability to obtain sufficient foreign currency to pay dividends on the H Shares or to satisfy its other foreign currency needs.

Legal and other regulatory considerations

Developing legal system. The PRC's legal system is based on statute law. Under this system, prior court decisions may be cited as persuasive authority but do not constitute as precedents with binding effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, these laws, regulations and legal requirements are relatively new. There are also only limited published cases and judicial interpretations. These factors, coupled with the non-binding nature of prior court decisions, quite often result in the interpretation and enforcement of these laws, regulations and legal requirements being subject to significant uncertainty. In particular, no court or arbitration panel in the PRC or Hong Kong has issued

RISK FACTORS

any published decisions regarding the enforcement by holders of H Shares of their rights under the PRC Company Law or its predecessor, or the application or interpretation of the Hong Kong regulatory provisions applicable to PRC joint stock limited companies.

Shareholders' rights. As a PRC company offering and listing its shares outside the PRC, the Group is subject to the PRC Company Law, the Special Regulations and the Mandatory Provisions. The PRC Company Law and the Special Regulations, in general, and provisions therein for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United Kingdom, the United States and other developed countries or regions.

The PRC Company Law is materially different from the company laws in Hong Kong, the United States and other common law countries or regions, particularly with regard to investor protection, including in areas such as derivative actions by minority shareholders and other minority protections, restrictions on directors, financial disclosures, variations of class rights, procedures at general meetings and payments of dividends. Certain material differences between the PRC Company Law and the Hong Kong company law are set out in appendix V to this prospectus.

The lack of investor protection under the PRC Company Law is compensated, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules, with a view to reducing the scope of differences between the Hong Kong company law and the PRC Company Law. The Mandatory Provisions and such additional requirements must be included in the articles of association of all PRC companies applying to have its H shares listed in Hong Kong. The Articles of Association, a summary of which is set out in appendix VI to this prospectus, incorporate the provisions required by the Mandatory Provisions and the Listing Rules. Notwithstanding the incorporation of such provisions, there can be no assurance that shareholders will enjoy protections that are similar to those which they may have in other jurisdictions.

Securities laws and regulations. At present, the regulatory framework of the securities industry in the PRC is at an early stage of development. In early 1993, the State Council promulgated various provisional regulations which regulate issues of shares by public companies, trading of shares, share custody and transfers, takeovers and the disclosure of certain transactions. The Securities Commission was also established in 1993 to be fully responsible for administering and regulating the national securities markets and drafting relevant laws and regulations and, as the executive arm of the State Council, was also responsible for the regulation of the national securities markets. In March 1998, the State Council dissolved the Securities Commission and its functions were transferred to the CSRC. On 29th December, 1998, the Standing Committee of the National People's Congress promulgated the Securities Law, which became effective on 1st July, 1999. The Securities

RISK FACTORS

Law is the fundamental law comprehensively regulating the securities markets in the PRC. It applies to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. The PRC Company Law, the relevant rules and regulations recently promulgated and the relevant laws relating to PRC companies whose shares are offered overseas provide, to a certain extent, a legal framework governing the behaviour of companies, such as the Group, and their directors and shareholders. A summary of the Securities Law is set out in appendix V to this prospectus.

Taxation of holders of H Shares. Under the current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are individuals not resident in the PRC or which are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC withholding tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. However, there can be no assurance that withholding or capital gains taxes will not become applicable to such dividends or gains in future. In such event, holders of H Shares could become subject to a withholding tax on dividends or to a capital gains tax, currently imposed upon individuals at the rate of 20% unless reduced or eliminated by an applicable double taxation treatment.

Arbitration of disputes. The Articles of Association require a holder of H Shares having a claim against or dispute with the Company, a Director, a Supervisor or an officer of the Company or a holder of Domestic Shares relating to any rights or obligations conferred or imposed by the Articles of Association, the PRC Company Law or any laws or administrative regulations and relating to the affairs of the Group, to submit the dispute or claim to CIETAC or to HKIAC for arbitration. The Articles of Association further provide that the arbitral award shall be final and binding on all parties. Pursuant to the Arbitration Rules of CIETAC which were revised on 5th September, 2000 and became effective on 1st October, 2000, CIETAC's jurisdiction covers disputes relating to Hong Kong. Further information on arbitration is set out in paragraph 1(c) headed "Arbitration and Enforcement of Arbitral Awards" in appendix V and a summary of the Articles of Association is set out in appendix VI, to this prospectus.

Enforceability of liabilities. The Company is a joint stock limited company incorporated in the PRC with limited liability. All of its Directors (apart from Chan Wing Yau, George, an independent non-executive Director), Supervisors and senior management personnel reside within the PRC, and substantially all the assets of the Company and of such persons are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons within the PRC or to enforce against the Company or such persons within the PRC any judgements obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgements of the courts of the United Kingdom, the United States or most other western countries or Hong Kong. Therefore recognition and enforcement in the PRC of judgements obtained in such jurisdictions may be impossible. The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the

RISK FACTORS

“New York Convention”) which has historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. On 21st June, 1999, an arrangement was made between Hong Kong and the PRC for mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council, and became effective on 1st February, 2000. Further information on arbitration, including the Arbitration Law of the PRC, is set out in paragraph 1(c) headed “Arbitration and Enforcement of Arbitral Awards” in appendix V to this prospectus.

RISKS RELATING TO THE H SHARES

Liquidity

Prior to the Share Offer, there has been no public market for the H Shares. There can be no assurance that an active trading market for the H Shares will develop or be sustained upon completion of the Share Offer. The Offer Price for the H Shares will be determined by negotiations between the Company and BNP Paribas Peregrine (on behalf of the Underwriters), and may bear no relationship to the market price for the H Shares after the Share Offer.

Possible volatility of share price

Following the Share Offer, the trading price of the H Shares may fluctuate substantially in response to, among other factors:

- fluctuations in the Group's interim or annual results of operations
- changes in financial estimates by securities analysts
- announcements of technological innovations by the Group or its competitors
- investor perceptions of the Group and the investment environment in Asia, including Hong Kong and the PRC
- changes in policies related to the cotton textile industry
- developments in the textile industry, in particular, the cotton textile industry
- changes in technologies used and pricing policies adopted by the Group or its competitors

RISK FACTORS

- depth and liquidity of the market for the H Shares
- recruitment or departures of key personnel
- general economic and other factors

Moreover, in recent years, stock markets in general, and the shares of PRC companies in particular, have experienced increasing price and volume fluctuations, some of which have been unrelated or did not correspond to the operating performances of such companies. These broad market and industry fluctuations may adversely affect the market price of the H Shares.

Dilution of shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing shareholders, the percentage ownership of the shareholders in the Company may be reduced, shareholders may experience subsequent dilution and/or such securities may have preferred rights, options and pre-emptive rights senior to the H Shares.

World politics and economies

The assault to the World Trade Center in the United States on 11th September, 2001 triggered the “anti-terrorism” war by the United States against Afghanistan at the end of 2001. On 20th March, 2003, the United States waged another “anti-terrorism” war against Iraq. These wars might continue to have considerable impact on the global political situation and economy over time.

Between April and July 2003, the Severe Acute Respiratory Syndrome outbreak severely affected the economies across the Asia-Pacific region. The financial cost has run into billions of dollars, while regional growth (including that of Hong Kong and the PRC) has been under threat. Tourism and commerce, in particular, has suffered. Although this epidemic has since subsided, its reoccurrence is possible and it might even become seasonal. To the Group, the health of its employees might be affected by such possible reoccurrence and would have an adverse effect on production especially if they are required to be quarantined, and hence the Group's profitability. The marketing activities of the Group which mainly involve participation in trade fairs, exhibitions and client visits might also be hampered given that such activities might be required to slow down considerably.

RISK FACTORS

The Group's products are sold to over 20 overseas countries and regions other than the PRC, and any adverse change and uncertainty in the global political and economic environment may cause an adverse impact to the business, prospects, financial condition and profitability of the Group. If the growth in the global economy continues to slow down in the near future, the Group's profitability, operation and even the price of the H Shares might be directly or indirectly adversely affected.

OTHER RISKS

Forward-looking statements may not be accurate

Included in this prospectus are various forward-looking statements which include the use of forward-looking wordings such as “may”, “will”, “expects”, “anticipates”, “estimates”, “continues”, “believes”, or similar words. The Group has made forward-looking statements with respect to, among other things:

- its goals and strategies
- the importance and expected growth of the textile industry
- the demand for textiles products

These statements are forward-looking and reflect the Group's current expectations. They are subject to a number of risks and uncertainties out of the Group's control, including but not limited to, changes in the economic and political environments in the Asian region, changes in technology and changes in the market-place.

Certain information based on unaudited figures and assumptions

To provide prospective investors with alternative ways to evaluate the business performance of the Group (including without limitation, performance without the effect of certain related party transactions between the Company and Holding Company), certain unaudited figures or figures based on a number of assumptions are included in this prospectus. Although the executive Directors have taken reasonable care in preparing the said information, prospective investors who read such figures, including without limitation, the turnover and profitability of the various operating assets during the Track Record Period prior to their actual transfer to the Group from Holding Company (as discussed in the paragraph headed “Management discussion and analysis” under the section headed “Financial information” in this prospectus), the unaudited pro forma consolidated results (as discussed in appendix II to this prospectus), and the Group's production capacity (as

RISK FACTORS

discussed in the paragraph headed “Production” under the section headed “Business” in this prospectus) should bear in mind that these figures are inherently subject to uncertainty and contingency and would likely vary should full audit be conducted or any or all of the assumptions do not materialise.

Certain statistics from unofficial publications

Certain statistics in the sections headed “Summary” and “Industry overview” in this prospectus relating to the textile industry, such as statistics relating to global and the PRC sales, are extracted from various unofficial publications including, for example, those produced by ICAC. Whilst the Directors have taken reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by the Company and may be inaccurate, incomplete or out-of-date. The Company makes no representation as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

Connected transactions

Members of the Group have entered and/or are expected to enter into certain transactions, which, upon Listing, would constitute connected transactions of the Company under the Listing Rules. Such transactions are categorized into non-exempt connected transactions, exempt connected transactions and other connected transactions.

A. *Non-exempt connected transactions:*

1. Supply of cotton by Holding Company to the Group
2. Supply of cotton yarn and cotton fabric
 - (a) by the Group to Parent Group
 - (b) by the Group to Itochu
3. Supply of electricity and steam by Holding Company to the Group
4. Provision of processing services by Parent Group to the Group
5. Lease of land use rights and building right by Holding Company to the Company

B. *Exempt connected transactions:*

1. Supply of raw materials by Itochu to the Company
2. Lease of land use right by Holding Company to Luteng Textile
3. Transfer of equipment from Holding Company to the Company

C. *Other connected transactions:*

Granting of financial assistance

- (a) by the Company and Holding Company to Industrial Park
- (b) by the Company to Weihai Weiqiao

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

The Company has applied to the Stock Exchange for a waiver from strict compliance with the shareholders' approval and/or announcement requirements set out in Chapter 14 of the Listing Rules for the non-exempt connected transactions described above subject to various conditions. Further details of such waiver are set out in the paragraph headed "Connected Transactions" in the section headed "Business" in this prospectus.

Management presence in Hong Kong

Pursuant to Rules 8.12 and 19A.17 of the Listing Rules, the Company must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The Company's management office and production facilities are located in the PRC. It does not and will not, in the foreseeable future, have any management presence in Hong Kong. Currently, substantially all of the Directors reside in the PRC.

Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rules 8.12 and 19A.17 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company will ensure that internal arrangements are put in place.

Qualification of company secretary

Pursuant to Rule 19A.18 of the Listing Rules, the secretary of a PRC issuer need not be ordinarily resident in Hong Kong provided that he or she can meet the requirements of Rule 8.17 of the Listing Rules. The company secretary of the Company, Ms. Zhao Suwen, who is also an executive Director, does not and is not expected in the foreseeable future, to reside in Hong Kong.

As Ms. Zhao cannot solely fulfil the requirements as stipulated under Rules 8.17 and 19A.18 of the Listing Rules, the Company has appointed Coudert Brothers, the Company's legal advisers on Hong Kong law, to assist Ms. Zhao so as to enable her to acquire the relevant experience (required under Rule 8.17(3) of the Listing Rules) to discharge the functions of a company secretary. Coudert Brothers is engaged by the Company in the above capacity for a minimum period of three years commencing from the date of Listing. During its engagement period, Coudert Brothers will ensure that at all times, at least one of its duly qualified Hong Kong solicitors, whose qualifications fulfil the requirement of Rule 8.17(2) of the Listing Rules, will be available to provide the assistance as described above. Upon expiry of the three-year period, the qualifications of the company secretary of the Company will be further evaluated by the Company in order to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can be satisfied.

The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.17 of the Listing Rules for a period of three years from the date of Listing.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the PRC Company Law, the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

CSRC APPROVAL

CSRC has given its approval for the Share Offer and the making of an application by the Company to list the H Shares on the Stock Exchange. In granting such approval, CSRC accepts no responsibility for the financial soundness of the Company nor the accuracy of any of the statements made or opinions expressed in this prospectus or in the related application forms.

UNDERWRITING

This prospectus is published in connection with the Share Offer. BNP Paribas Peregrine is the global co-ordinator, sponsor, bookrunner and lead manager of the Share Offer, which is fully underwritten by the Underwriters. For details of the Underwriters and the underwriting arrangements, see "Underwriting — Underwriting arrangements and expenses" on page 166 of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by BNP Paribas Peregrine (on behalf of the Underwriters) and the Company at or before 9:00 a.m. on 19th September, 2003 (Hong Kong time), or such later date or time as may be agreed between BNP Paribas Peregrine and the Company but in any event no later than 2:00 p.m. on 20th September, 2003.

If BNP Paribas Peregrine (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by 9:00 a.m. on 19th September, 2003, or such later date or time as may be agreed between BNP Paribas Peregrine (on behalf of the Underwriters) and the Company but in any event no later than 2:00 p.m. on 20th September, 2003, the Share Offer will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON SALE OF H SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related application forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other persons or parties involved in the Share Offer.

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act, and subject to certain exceptions may not be offered, sold, pledged or otherwise transferred within the United States, except to qualified institutional buyers in accordance with Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to qualified institutional buyers in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Share Offer and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Share Offer) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements or in accordance with Rule 144A.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended). In addition, this prospectus is distributed only to and is directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

Singapore

This prospectus has not been and will not be lodged as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the Securities and Futures Act (Cap 289, 2002 Rev Edn) of Singapore (the “SFA”). Accordingly, this prospectus and any other offering document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchased or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the SFA and to persons to whom the Offer Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with any other conditions of any other provision of the SFA.

Italy

The Offer Shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to Professional Investors, as defined by The Commissione Nazionale per le Società e la Borsa (“CONSOB”), the stock market regulator in Italy, in Art. 31.2 of CONSOB Regulation no. 11522 of 1st July, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree no. 58 of 24th February, 1998 (the “Finance Law”) or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of 14th May, 1999, as amended (the “Issuers Regulation”) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and provided, however, that any such offer, sale, or delivery of the Offer Shares or distribution of copies of this prospectus or any other documents relating to the Offer Shares in Italy must (i) be made in accordance with all applicable Italian laws and regulations, (ii) be made in compliance with Article 129 of Legislative Decree no. 385 of 1 September 1993, as amended (the “Banking Law Consolidated Act”) and the implementing

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

guidelines of the Bank of Italy (*Istruzioni di Vigilanza per le banche*) pursuant to which the issue, trading or placement of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption applies depending, *inter alia*, on the amount of the issue and the characteristics of the securities, (iii) be conducted in accordance with any relevant limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the Offer Shares, and (iv) be made only by (a) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Banking Law Consolidated Act, to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Banking Law Consolidated Act and the relevant implementing regulations; or by (b) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same European Union Member State) authorised to place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “SEL”). The Offer Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption available from the registration requirements of the SEL and in compliance with any other applicable requirements of Japanese law. Such other applicable requirements may include (i) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan, (ii) restrictions on transferability under the SEL, and (iii) regulations of the Japan Securities Dealers Association. As used in this paragraph, a resident of Japan means any individual residing in Japan and business offices located in Japan, including any corporation or other entity established under the laws of Japan.

Australia

The Offer Shares may not be directly or indirectly offered for subscription, issue or sale in Australia. No invitation for applications for the purchase, issue or subscription of the Offer Shares or offer to issue or sell the Offer Shares may be made if the offer or invitation is received anywhere in Australia. These restrictions do not apply if and only if the offer or invitation is made in a manner specifically exempted under chapter 6D of the Corporations Act of Australia from the need for disclosure to investors in Australia by way of a prospectus or offer information statement lodged with the Australian Securities and Investments Commission.

Germany

This prospectus is not a Securities Selling Prospectus (wertpapier-Verkaufsprospekt) within the meaning of the German Securities Prospectus Act of 13th December, 1990

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

(wertpapier-Verkaufsprospektgesetz) and has not been filed with or approved by the Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), and the Offer Shares may not be offered or sold, or copies of this prospectus or any document relating to the Offer Shares may not be distributed, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act of 13th December, 1990.

Netherlands

The Offer Shares may not be offered, sold, transferred, or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity residing or deemed to be residing in the Netherlands, other than to individuals or entities that trade or invest in securities in the conduct of their business or profession within the meaning of Section 2 of the Exemption Regulation to the Netherlands Act on the Supervision of Securities Trade 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), which includes credit institutions, securities institutions (including dealers and brokers), investment institutions, insurance companies, pension funds, central governments, large international and supranational organisations and other comparable entities, including *inter alia*, treasuries and finance companies of large commercial enterprises, which trade or invest in securities in the conduct of a business or profession.

Canada

The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada in contravention of the securities laws thereof and, without limiting the generality of the foregoing, any offer or sale of Offer Shares in any province or territory of Canada will be made only pursuant to an exemption from the requirements to prepare and file a prospectus with the relevant regulatory authority in the province or territory of Canada in which such offer or sale is made and only by a dealer duly registered under the applicable securities laws of that province or territory in circumstances where any exemption from the applicable dealer registration requirements is available. Accordingly, any resale of the Offer Shares must be made in accordance with applicable securities laws which may require resales to be made in accordance with exemptions from registration and prospectus requirements.

This prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of the Offer Shares in Canada. No securities commission or similar authority in any jurisdiction in Canada has reviewed or in any way passed upon this document or upon the merits of the securities described herein and any representation to the contrary is an offence.

The securities legislation of Ontario and certain other provinces in Canada provides purchasers with a remedy for rescission or damages, in addition to any other right they may have at law, if this prospectus, together with any amendment to it, contains a misrepresentation. A misrepresentation is an untrue statement of a material fact or

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies must be exercised by a purchaser within the time limits prescribed by the Securities Act (Ontario) or other applicable provincial securities legislation and are subject to other conditions and limitations. Reference should be made to such legislation for the complete text of the rights.

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French Code monétaire et financier and Regulations no. 98-01 and 98-08 of the Commission des opérations de bourse (“COB”) and has therefore not been submitted to the COB for prior approval.

The securities have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this prospectus nor any other offering material relating to the securities has been distributed or caused to be distributed and will be distributed or caused to be distributed to the public in France, except to qualified investors (as defined in Article L.411-2 of the French *Code monétaire et financier* and in the Decree no. 98-880 dated 1st October, 1998) on the conditions that it shall not be passed onto any person nor reproduced (in whole or in part) and that investors act for their own account in accordance with the terms set out by the said decree and undertake not to re-transfer, directly or indirectly, the securities in France, other than in compliance with applicable laws and regulations (Articles L.411-1, L.412-1 and L.621-8 of the French Code monétaire et financier).

Ireland

Otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Acts 1963 to 2001, the Offer Shares may not be offered or sold in Ireland, by means of any document, unless such offer or sale has been made or is made to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent and no application form for the Offer Shares may be issued.

The Offer Shares may not be offered to the public in Ireland in circumstances in which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply, except in accordance with the provisions of those regulations.

Switzerland

This prospectus does not constitute a prospectus within the meaning of Article 652a of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*); and neither the Share Offer nor the Offer Shares has been or will be approved by any Swiss regulatory authority.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Taiwan

The Offer Shares have not been and will not be registered with the Securities and Futures Commission of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan or to, or for the benefit of, any resident of Taiwan, except (a) pursuant to the requirements of the securities related laws and regulations in Taiwan and (b) in compliance with any other applicable requirements of Taiwanese laws.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares (including H Shares which may fall to be issued under the Over-allotment Option).

Save as disclosed herein, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by the Stock Exchange.

HONG KONG H SHARE REGISTER AND STAMP DUTY

All H Shares issued pursuant to applications made in the Public Offer and the Placing will be registered on the Company's H share register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by the Company at its legal address in the PRC.

Dealings in H Shares registered in the H share register of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the shareholders listed on the Hong Kong H share register of the Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

This prospectus sets out certain conversion rates of Renminbi amounts into HK dollars or U.S. dollars, for information only. No representation is made that the Renminbi amounts set out in this prospectus could have been or could be converted into the HK dollars or U.S. dollars amounts, as the case may be, at any particular rate indicated on the date or dates in question or any other date.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

The Company has instructed Computershare Hong Kong Investor Services Limited, its Hong Kong H share registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers to such Hong Kong H share registrar a signed form in respect of such H Shares bearing statements to the effect that the holder of the H Shares:

- (i) agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with the Company, each shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- (iii) agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holders thereof; and
- (iv) authorises the Company to enter into a contract on his behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the H Shares. It is emphasized that none of the Company, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Share Offer accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding or disposal of H Shares.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the stabilisation price will not exceed the initial public offer price. In other jurisdictions, the stabilisation price may or may not be higher than the initial public offer price.

In connection with the Share Offer, BNP Paribas Peregrine may over-allocate H Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, BNP Paribas Peregrine may exercise the Over-allotment Option no later than 30 days after the date of this prospectus or make (or agree, offer or attempt to make) open-market purchases in the secondary market. BNP Paribas Peregrine may also sell or agree to sell any H Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. However, there is no obligation on BNP Paribas Peregrine to conduct any such stabilising action which, if taken, may be discontinued at any time at the absolute

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

discretion of BNP Paribas Peregrine. The number of H Shares over-allocated will not be greater than the maximum number of H Shares which may be issued upon exercise of the Over-allotment Option, being 37,465,500 H Shares, which is 15% of the H Shares initially available for subscription under the Share Offer.

BNP Paribas Peregrine may, in connection with the stabilising action, maintain a long position in the H Shares. The size of the long position, and the time period for which BNP Paribas Peregrine will maintain such a position is at the discretion of BNP Paribas Peregrine and is uncertain. In the event that BNP Paribas Peregrine liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the commencement of trading of the Offer Shares after this prospectus is issued and the Offer Price is announced and ends on the 30th day after the last day for the lodging of applications under the Share Offer. The stabilising period is expected to expire on 18th October, 2003, and that after this date, when no further stabilising action may be taken, demand for the H Shares, and therefore its price, could fall.

Investors should be aware that the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

PROCEDURES FOR APPLICATION FOR H SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed “How to apply for H Shares” and on the relevant applications forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer”.

<p align="center">DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>
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DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Zhang Bo	No. 511 Huang He 4th Road Binzhou City Shandong Province The PRC	Chinese
Zhang Hongxia	No. 1 Living Quarters 1-201 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese
Qi Xingli	No. 1 Living Quarters 1-202 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese
Zhao Suwen	No. 2 Living Quarters 2-3202 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese
<i>Non-executive Directors</i>		
Zhang Shiping	East Wing No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese
Wang Zhaoting	No. 1 Living Quarters 3-2201 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese

<p align="center">DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>
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Name	Residential Address	Nationality
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Independent Non-executive Directors

Wang Naixin	No. 512 Huang He 4th Road Binzhou City Shandong Province The PRC	Chinese
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Xu Wenying	No. 1708, Building 40 Zhongfangli Chaoyang District Beijing The PRC	Chinese
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Chan Wing Yau, George	Flat 5B 78A Bonham Road Hong Kong	Chinese
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SUPERVISORS

Liu Mingping	No. 1 Living Quarters 1-401 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese
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Lu Tianfu (<i>Note</i>)	No. 563 Huang He 3rd Road Binzhou City Shandong Province The PRC	Chinese
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Wang Wei (<i>Note</i>)	No. 131 Living Quarters 2 Sheng Fang Zhi Ting No. 18 Yang Tou Valley Dong Gou Wen Hua Dong Road Jinan City Shandong Province The PRC	Chinese
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Note: Independent Supervisor

<p align="center">DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>
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SENIOR MANAGEMENT

Name	Residential Address	Nationality
Liu Shubin (Deputy general manager)	No. 1 Living Quarters 3-2301 No. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	Chinese

PARTIES INVOLVED

Global Co-ordinator, Sponsor, Bookrunner and Lead Manager	BNP Paribas Peregrine Capital Limited 36th Floor, Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
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Public Offer Underwriters

<i>Global Co-ordinator and Lead Manager</i>	BNP Paribas Peregrine Capital Limited 36th Floor, Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
<i>Co-Lead Managers</i>	BOCI Asia Limited 35/F, Bank of China Tower 1 Garden Road, Central Hong Kong
	China Southern Securities (Hong Kong) Limited Room 2801, 28/F, The Center 99 Queen's Road Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
	Kim Eng Securities (Hong Kong) Limited Room 1901, Bank of America Tower 12 Harcourt Road Central Hong Kong

<p>DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>

	Shenyin Wanguo Capital (H.K.) Limited 28/F, Citibank Tower, Citibank Plaza 3 Garden Road Central, Hong Kong
<i>Co-Managers</i>	CM-CCS Securities Limited 26/F, Worldwide House 19 Des Voeux Road Central Hong Kong
	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	SinoPac Securities (Asia) Limited 11/F, COSCO Tower 183 Queen's Road Central Hong Kong
	Tai Fook Securities Company Limited 25/F, New World Tower 16-18 Queen's Road Central Hong Kong

Placing Underwriters

<i>Global Co-ordinator, Bookrunner and Lead Manager</i>	BNP Paribas Peregrine Capital Limited 36th Floor, Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
<i>Co-Lead Managers</i>	BOCI Asia Limited 35/F, Bank of China Tower 1 Garden Road, Central Hong Kong
	China International Capital Corporation (Hong Kong) Limited Suite 2307, 23/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong

<p>DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>

	<p>Nomura International (Hong Kong) Limited 30/F, Two International Finance Centre 8 Finance Street Central Hong Kong</p>
	<p>Shenyin Wanguo Capital (H.K.) Limited 28/F, Citibank Tower, Citibank Plaza 3 Garden Road Central Hong Kong</p>
<i>Co-Managers</i>	<p>DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong</p> <p>ING Bank N.V. 39/F, One International Finance Centre 1 Harbour View Street Central Hong Kong</p> <p>Kim Eng Securities (Hong Kong) Limited Room 1901, Bank of America Tower 12 Harcourt Road Central Hong Kong</p>
Auditors and reporting accountants	<p>Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong</p>

<p>DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER</p>

Legal advisers to the Company	<p><i>as to Hong Kong law</i></p> <p>Coudert Brothers 39th Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong</p> <p><i>as to PRC law</i></p> <p>Jingtian & Gongcheng 15th Floor, The Union Plaza 20 Chaoyangmen Wai Dajie Beijing City 100020 The PRC</p>
Legal advisers to the Sponsor and the Underwriters	<p><i>as to Hong Kong law</i></p> <p>Johnson, Stokes & Master 16-19th Floors Prince's Building 10 Chater Road Central Hong Kong</p> <p><i>as to U.S. law</i></p> <p>Perkins Coie 25th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong</p>
Property valuer	<p>Chesterton Petty Limited 16th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong</p>
Receiving banker	<p>Standard Chartered Bank 15th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong</p>

CORPORATE INFORMATION

Legal address and principal place of business in the PRC	No. 34, Qidong Road Weiqiao Town Zouping County Shandong Province The PRC
Place of business in Hong Kong	39th Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Company secretary	Zhao Suwen
Authorised representatives	Qi Xingli Zhao Suwen
Audit committee	Wang Naixin Xu Wenying Chan Wing Yau, George
Hong Kong H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	China Construction Bank (Binzhou Branch) Shandong Province The PRC Agricultural Bank of China (Binzhou Branch) Shandong Province The PRC Industrial and Commercial Bank of China (Binzhou Branch) Shandong Province The PRC Bank of China (Binzhou Branch) Shandong Province The PRC

INDUSTRY OVERVIEW

WORLD COTTON TEXTILE INDUSTRY

Global cotton production and market

Cotton is the principal raw material for producing cotton textile. In the 2001/02 marketing year, global cotton production reached about 21.4 million tons, representing an increase of about 9.7% over the 1996/97 marketing year. In the 2001/02 marketing year, the aggregate production volume of the five largest cotton producing countries (namely the PRC, the U.S., India, Pakistan and Uzbekistan) was about 15.3 million tons, amounting to about 71.5% of global cotton production. The PRC was the largest cotton producing country which recorded a production volume of about 5.3 million tons in the 2001/02 marketing year. In August 2003, ICAC forecasted that global cotton production would be stable at about 20.5 million tons for the 2003/04 marketing year.

Global cotton textile production

Global cotton textile fibre (i.e., end-products) consumption increased from about 18.9 million tons in 1996 to about 20.0 million tons in 2001. With an increasing demand for cotton textile fibre products, global cotton yarn and cotton fabric production increased from about 16.7 million tons and 9.8 million tons in 1996 to about 19.5 million tons and 11.3 million tons, respectively, in 2001, representing a CAGR of about 3.1% and 2.9% respectively.

As a result of the structural change in global economy, progress in textiles and clothing trade liberalisation and globalisation, and labour intensive nature of the industry, the key cotton textile production centres have shifted from the developed countries (e.g., the U.S., Japan and some European countries) to the developing countries and regions such as the PRC, India, Pakistan, Southeast Asia and Latin America since the early 1980s. By the end of the 1990s, the ring spinning capacity (a measurement of conventional and dominant spinning capacity) located in the Asia Pacific region accounted for about 69.9% of the global capacity, rising from about 45.4% in 1980, while Europe and North America only accounted for about 19.2%, significantly declining from about 44.4% in 1980. In 2000, the number of spindles in the PRC was about 34.4 million, amounting to about 22.1% of the total spindles worldwide.

INDUSTRY OVERVIEW

The following table sets out the major cotton yarn and cotton fabric producing countries and the percentages of their respective cotton yarn and cotton fabric production in terms of the world's total production:

The world's major cotton yarn and cotton fabric producing countries (1996 vs 2001)

Country	Cotton yarn				Cotton fabric			
	1996		2001		1996		2001	
	Percentage in terms of world's output		Percentage in terms of world's output		Percentage in terms of world's output		Percentage in terms of world's output	
	Output (million tons)	(%)	Output (million tons)	(%)	Output (million tons)	(%)	Output (million tons)	(%)
PRC	5.1	30.5	7.0	35.9	2.3	23.5	3.2	28.3
India	2.1	12.6	2.2	11.3	1.7	17.3	1.8	15.9
U.S.	2.0	12.0	1.6	8.2	0.9	9.2	0.8	7.1
Pakistan	1.3	7.8	1.8	9.2	0.8	8.2	1.0	8.8
Brazil	0.6	3.6	0.7	3.6	0.6	6.1	0.7	6.2
Others	<u>5.6</u>	<u>33.5</u>	<u>6.2</u>	<u>31.8</u>	<u>3.5</u>	<u>35.7</u>	<u>3.8</u>	<u>33.7</u>
Total:	<u>16.7</u>	<u>100.0</u>	<u>19.5</u>	<u>100.0</u>	<u>9.8</u>	<u>100.0</u>	<u>11.3</u>	<u>100.0</u>

Source: World Textile Demand — 2002, ICAC

The PRC's production of cotton yarn and cotton fabric accounted for about 35.9% and 28.3% of the world's total production respectively in 2001.

Global textile trade

The Agreement on Textiles and Clothing ("ATC") provides that quotas and barriers which are against WTO's free trade principles should be removed gradually by WTO members by 31st December, 2004 to liberalise and globalise the international trade of textiles and clothing, thereby benefiting the future development of the major cotton textile exporting countries and regions, including the PRC.

Other WTO members can utilise, until 31st December, 2008, a specific textile safeguard, which, if fully imposed, would allow them to impose a limit of 7.5% per year on the growth of the textile and clothing imports from the PRC.

INDUSTRY OVERVIEW

Development trends of the global cotton textile industry

The Directors consider that, with continuous economic development and technological advancement, the world cotton textile industry is undergoing a structural realignment in recent years with characteristics as follows:

- Shift of textile supply chain

In terms of cotton textile product processing capabilities, the market share of the developed countries will continue to drop, whereas those of the developing countries, especially Asian countries including the PRC and India, will continue to increase. The further separation of consumption centres from production centres will boost the continuous growth in cotton textile trading.

- Liberalisation and globalisation of the cotton textile industry

According to ATC, WTO members shall gradually remove textile and clothing quotas by the end of 2004. Liberalisation and globalisation are expected to further promote international trade for the textile industry.

- Continuous improvement in production technologies

In recent years, many new and innovative yarn spinning techniques have been introduced worldwide. New techniques such as compact spinning, fully automated rotor spinning and jet spinning, as well as new equipment have been widely applied. As regards cotton weaving, with the rapid development of shuttleless looms and the decrease in the use of shuttle looms, it has resulted in the fast upgrade of techniques such as winding, warping and sizing, as well as the increased use of equipment relating to such techniques.

With advanced technologies in the areas of computing, sensing and networking being widely applied, yarn spinning and weaving techniques have improved, thus resulting in shorter lead time, automation, continuity and high speed of operation.

In its World Economic Outlook published in April 2003, IMF forecasted that the global real GDP would increase by about 3.2%, 4.1% and 4.6% in 2003, 2004 and 2005 respectively. In October 2002, ICAC forecasted that global cotton textile fibre consumption is expected to reach about 21.7 million tons by 2005 and global cotton yarn and cotton fabric production is expected to reach about 21.1 million tons and 12.1 million tons respectively by 2005. The Directors are of the view that the world cotton textile market could sustain a steady growth in the foreseeable future.

INDUSTRY OVERVIEW

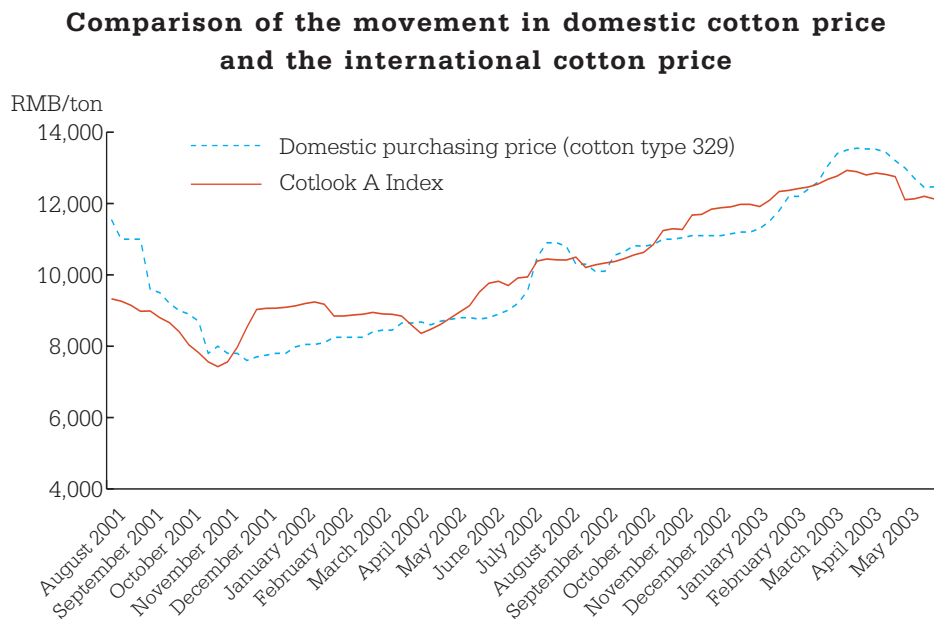
COTTON TEXTILE INDUSTRY IN THE PRC

Cotton production and market in the PRC

In the 2001/02 marketing year, the PRC was the largest cotton producing country which recorded a production volume of about 5.3 million tons, representing about 24.8% of the total production worldwide. Domestically, there are seven key cotton producing provinces and one autonomous region which accounted for about 91.4% of the PRC's total cotton production in 2001. Among them, Shandong Province, where the Group is situated, was the largest cotton producing coastal province in the PRC and produced about 781,000 tons of cotton in 2001, accounting for about 14.7% of the PRC's total cotton production.

From 1995 to 1998, domestic cotton price had been much higher than the international cotton price. Since 1999, the PRC government changed its practice of standardising cotton price and allowed the selling price to be adjusted mainly by the market. Thereafter, domestic cotton price has demonstrated a trend roughly parallel to the international cotton price.

The chart below compares the movement in domestic cotton price and international cotton price from the beginning of the 2001/02 marketing year to May 2003:



Source: China Textile Information Centre

Due to increasing demand and supply shortage, domestic cotton price and international cotton price increased by about 56.3% and 33.6% respectively during the period from the beginning of 2002 to May 2003. It is estimated that domestic cotton price will decline slightly during 2003 as a result of expanding cotton sown area, decreasing demand and increasing cotton import into the PRC.

INDUSTRY OVERVIEW

Cotton textile production in the PRC

In 2000, the PRC was the largest textile producing country, with about 34.4 million cotton yarn spindles and 655,400 cotton weaving looms, accounting for about 22.1% and 31.1% of the total number worldwide respectively.

In 2002, the PRC cotton textile industry produced about 8.5 million tons of yarn and 32.2 billion metres of fabric. In the seven years from 1996 to 2002, CAGR of yarn and fabric production volume in the PRC cotton textile industry was about 8.9% and 7.6% respectively.

In 2002, after the PRC became a WTO member, major indicators in the PRC cotton textile industry, including production volume of cotton textile products, export value of cotton textiles and clothing and profitability of cotton textile enterprises, achieved a historical high. In 2002, production of yarn and fabric in the PRC cotton textile industry increased by about 11.8% and 11.0% respectively over 2001. The robust growth was mainly attributable to, among others, the increase in demand in both domestic and international market, relaxation of trade restrictions, improvement in product quality and production efficiency, enhancement of research and development capability, introduction of more value added products and decrease in cotton price differences between domestic and international markets.

Shandong Province plays an important role in terms of the production of cotton textile products. In 2001, production of yarn and fabric in Shandong Province was about 1.2 million tons and 4.3 billion meters respectively, accounting for about 15.8% and 14.8% of total production in the PRC cotton textile industry.

In 2002, the Group was ranked first in the PRC cotton textile industry in terms of turnover. Details in respect of the Group's market position in the PRC are discussed further under the section headed "Business" in this prospectus.

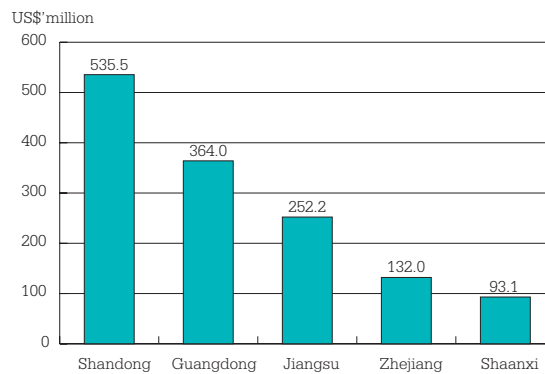
Cotton textile export in the PRC

The PRC's total export value of textiles and clothing was about US\$61.8 billion in 2002, representing an increase of about 15.9% over 2001. The PRC's total export value of cotton yarn and grey fabric, which are the Group's principal products, was about US\$1,865.7 million, representing an increase of about 20.4% over 2001. Shandong Province was the largest province in terms of the total export value of cotton yarn and grey fabric in the PRC in 2002. Shandong Province's total export value of cotton yarn and grey fabric was about US\$535.5 million in 2002, accounting for about 28.7% of the PRC's total export value of cotton yarn and grey fabric for the year.

INDUSTRY OVERVIEW

The following chart illustrates the total export value of cotton yarn and grey fabric of the five largest exporting provinces in the PRC in 2002:

Total export value of cotton yarn and grey fabric



Source: China Chamber of Commerce for Import and Export of Textiles

According to ATC, WTO members would gradually remove textile and clothing quotas by 31st December, 2004. By that time, exports of the cotton textile products from the PRC will no longer be subject to quotas restrictions. However, other WTO members may impose a limit to the growth of textile imports from the PRC to 7.5% each year until 31st December, 2008.

In 2002, the Group was ranked first in the PRC in terms of the aggregate export value of cotton yarn and grey fabric, representing about 13.2% of the PRC's total export value of cotton yarn and grey fabric.

Main strengths of the PRC cotton textile industry

The cotton textile industry of the PRC has been leveraging on its overall advantages to maintain its leading position and sustained development. Those advantages are summarised as follow:

1. Abundant textile fibre resources

In the 2001/02 marketing year, the PRC was the largest cotton producing country in the world. In addition, the PRC is rich in many other natural fibre resources, many of which are only found in the PRC. The PRC possesses the richest chemical fibre resources in the world. As such, the PRC cotton textile industry enjoys exceptional advantages in terms of the availability of different kinds of raw materials to develop new products.

INDUSTRY OVERVIEW

2. Low labour costs

Cotton textile industry is a labour intensive industry. As a developing country, the PRC is rich in human resources and enjoys a comparative advantage against many other developing countries in terms of labour cost. The table below shows the spinning and weaving labour cost comparison in some major countries and regions:

Spinning and weaving labour cost comparison in some major countries and regions

Unit: US\$ per operator hour

Countries/Regions	Spring 1996	Spring 1998	Autumn 2000	Summer 2002
Japan	24.31	20.70	26.10	22.76
Italy	16.65	15.81	14.71	13.93
U.S.	12.26	12.97	14.24	15.13
Taiwan	6.38	5.85	7.23	7.15
Hong Kong	4.90	5.65	6.10	6.15
South Korea	5.65	3.63	5.32	5.73
Turkey	2.02	2.48	2.69	2.13
Thailand	1.56	1.09	1.18	1.24
The PRC (coastal)	0.58	0.62	0.69	0.69
India	0.56	0.60	0.58	0.57
Pakistan	0.43	0.40	0.37	0.34
Indonesia	0.52	0.24	0.32	0.50

Source: Werner International

3. Strong fundamentals

The PRC has been leveraging on its vast domestic market with a population of about 1.28 billion and stable economic growth to provide the cotton textile industry with a solid foundation to further develop domestically.

Major policies on cotton textile industry and sales and supplies of cotton in the PRC

1. Policies on the number of spindles

Despite its leading position in the market, the competitiveness of the textile industry in the PRC has long been dampened as a result of having low technology level, obsolete equipment, inefficient management, and high production costs (i.e., due to inefficient operation among mostly small and/or state-owned enterprises).

INDUSTRY OVERVIEW

The PRC government limited the number of spindles to improve technology levels and product quality. During the three-year period between 1998 and 2000, about 9.4 million obsolete cotton spindles were eliminated from the cotton textile industry in the PRC. The PRC government plans to renovate 10 million cotton spindles between 2001 and 2005.

2. Policies on exporting cotton textile products

Pursuant to the “Administrative Regulations on Imports and Exports of Commodities of the PRC” (《中華人民共和國貨物進出口管理條例》), measures for the administrative control of the PRC on exported commodities mainly include export quota, export licence, trading by state-owned enterprises, franchise and passive export quota.

Pursuant to the “Administrative Measures for Textile Passive Quota” (《紡織品被動配額管理辦法》), ATC and the relevant textile trading arrangements following PRC’s accession into the WTO, the PRC implements passive quotas on the exports of certain commodities. Pursuant to the “Commodity Catalogue for the Administration of Export Licences in 2003” (《二零零三年出口許可證管理商品目錄》), the PRC no longer imposes export quotas administration and export licence administration for cotton textile products in 2003. Pursuant to the “Commodity Catalogue for the Administration on Trading by state-owned Enterprises” (《出口國營貿易管理貨物目錄》) and “Commodity Catalogue for the Administration on Franchise” (《出口指定經營管理貨物目錄》), the PRC no longer implements State trading administration and franchise administration on exports of cotton textile products.

To encourage exports of cotton textile products, the PRC government increased the rate of export value-added tax refund of certain cotton textile products commencing on 1st July, 2001 from 15% to 17%.

3. Reforms on cotton distribution system

Prior to 1985, the PRC government assigned cotton purchase targets to the peasants each year and the State determined the price of the cotton and cotton was distributed by the designated organisation. Since 1985 when the PRC commenced its reform on cotton distribution system, the State adopted a contract-based cotton purchase system for purchases assigned by the State. Cotton not subject to the purchase contracts was allowed to be sold freely in the market.

Pursuant to the “Opinion regarding the Reform on Cotton Distribution System” (《關於改革棉花流通體制的意見》), the PRC strengthened the reforms on the cotton distribution system in 1992. Such reforms included purchases of cotton being made through cotton trading enterprises designated by the State by way of their entering into cotton purchase contracts with the peasants; textile enterprises and cotton trading enterprises entering into cotton purchase and sales contracts directly through cotton wholesale market or other channels; prices being set by buyers and sellers through mutual negotiation; direct purchase and processing of cotton by other enterprises which have obtained the qualification for cotton trading.

INDUSTRY OVERVIEW

Pursuant to the “Decision regarding In-depth Reform on Cotton Distribution System” (《關於深化棉花流通體制改革的決定》), the PRC further reformed the cotton distribution system for cotton in 1999. The main targets of the reforms were: the cotton price was to be determined by the market, subject to the general guidance given by the government; an implementation of a certification system for cotton purchase and processing whereby the certified enterprises which have obtained such certification may directly engage in the purchase and processing of cotton; the fostering of cotton distribution markets and the establishment of a cotton supply and demand and pricing information system.

Pursuant to the “Opinion of the State Council regarding further In-depth Reform on Cotton Distribution System” (《國務院關於進一步深化棉花流通體制改革的意見》), the PRC continued its reform on cotton distribution system in 2001 with the objective of principally strengthening the administration on the purchase and processing of cotton and the cotton market. Enterprises engaging in cotton operation had to comply with the requirements under the “Provisional Measures on the Administration of Purchase and Processing of Cotton and the Market” (《棉花收購加工與市場管理暫行辦法》), and were subject to certification by the provincial government; qualified cotton trading enterprises were encouraged to make cross regional purchase directly at major cotton producing districts or through designated agents.

4. Policies on cotton import

Pursuant to the “Administrative Regulations on Imports and Exports of Commodities of the PRC” (《中華人民共和國貨物進出口管理條例》), certain measures are implemented for the administrative control of imported commodities in the PRC, which mainly include the imposition of import quota, import licence requirements, import tariff quota, restrictions on trading by the state-owned enterprises and franchise requirements. With the accession into the WTO in December 2001, the PRC has imposed import tariff and quota and some state trading administrative measures, i.e., imposing a tariff (1%) on imports of cotton within the quotas, whereas imports of cotton exceeding the quotas will not be subject to such preferential tariff treatment. An import tariff of 47.2% (for imports from most favoured nations) or 125% (for imports from other nations) is levied on the portion exceeding the quota, which will be reduced to 40% by 2004. Import quotas of cotton in ordinary trade and processing trade under preferential tariff are 356,000 tons and 500,000 tons, respectively in 2003. Import quotas of cotton under preferential tariff will be 894,000 tons in 2004.

Development trends of the cotton textile industry in the PRC

The Directors are of the view that the PRC cotton textile industry is likely to evolve in the following ways in the future:

- Technological upgrades in the PRC cotton textile industry will enhance competitiveness

The PRC cotton textile manufacturers are aware that factors such as low technology, obsolete equipment, inefficient management and high production

INDUSTRY OVERVIEW

costs would adversely affect their competitiveness. The PRC cotton textile industry will aim to increase the use of advanced technologies and new technologies that could help upgrade their products to become middle to high end products such as sliverless lab (無卷化), knotless yarn, combed yarn and shuttleless fabric. Advanced equipment such as blowing-carding units, combing machines, new model spinning and fully automated rotor spinning, automatic winding and shuttleless looms will also be widely introduced, resulting in a higher level of electromechanical standardization and automation.

- Structured realignment and consolidation in the textile industry is likely to facilitate the development of the PRC cotton textile industry

Investors from different countries and regions, including South Korea, Japan and Taiwan, are likely to be attracted to invest in the PRC following its accession into the WTO, with an anticipated increase in the cotton and cotton textile investment and trading opportunities in the domestic market. Such shift could bring technology advancement, sales channels integration, design capability improvement and operation enhancement to the PRC textile industry, thus enabling the PRC to become a global manufacturing centre.

According to the tenth five-year plan formulated by the PRC government, the PRC textile industry is expected to become further consolidated and production is expected to shift gradually to large enterprises with economies of scale.

- Liberalisation and globalisation of the textile industry will be beneficial to the trading activities of the PRC cotton textile industry

The liberalisation and globalisation of the textile industry will release the PRC cotton textile industry from quotas restrictions imposed by WTO members by 31st December, 2004. The PRC allows WTO members to utilise, until 31st December, 2008, a specific textile safeguard, which, if fully imposed, would allow other WTO members to impose a limit of 7.5% per year on the growth of the textile and clothing imports from the PRC. Removal of cotton import quotas will enable the cotton textile enterprises in the PRC to reduce their cotton purchase costs, expand their purchasing channels, thereby strengthening their competitiveness.

- Potential of the domestic market will provide room for the development of the PRC cotton textile industry

In 2002, the GDP of the PRC was about US\$1,237.0 billion, which ranked sixth worldwide. It is forecasted that the PRC will keep a CAGR of about 7% by 2010. The PRC is the most populated country, with a population of about 1.28 billion in 2002. With rapid economic growth and a large population size, the PRC's domestic market is large and has sufficient potential for the development of the PRC cotton textile industry.



INDUSTRY OVERVIEW

The Directors consider that, with the liberalisation and globalisation of the global textile industry, the anticipated inflow of domestic and overseas funds to the PRC textile industry, the ongoing innovation and continued enhancement of product quality, improvements of production technology, and strengthened management, the PRC cotton textile industry will continue to have a strong growth momentum.

According to China Textile Industry Development Report 2002/2003 published by China National Textile Industry Council in April 2003, about 8.0 million to 8.7 million tons of textile fibre is expected to be processed by the cotton textile industry in the PRC by 2005 and the PRC's export value of cotton textile products is expected to reach US\$7.5 billion by 2005.

BUSINESS

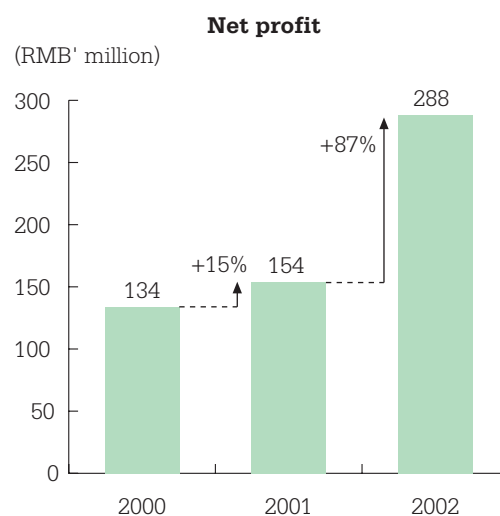
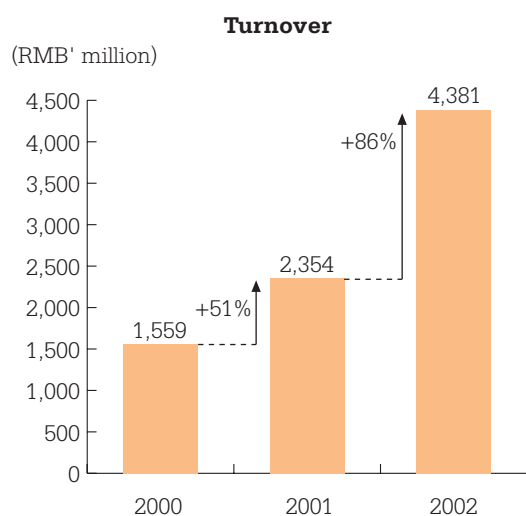
OVERVIEW

The Group is a non state-owned PRC enterprise principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. The Group's production facilities are located in Zouping County, Binzhou City and Weihai City of Shandong Province, the PRC, which are close to the Beijing-Shanghai Expressway and Qingdao Port, an important port in the PRC. The Group had an aggregate production capacity of about 265,000 tons of cotton yarn, 462 million metres of grey fabric and 157 million metres of denim in 2002. With the acquisition of Industrial Park (whose trial run commenced in September 2002 and full operation is expected to take place around the end of the third quarter of 2003), the Directors expect the Group will have an aggregate production capacity of about 441,000 tons of cotton yarn, 844 million metres of grey fabric and 157 million metres of denim in 2003. As an integrated cotton textile producer, the Group produces grey fabric and denim from its own cotton yarn. The Group has a comprehensive range of products comprising more than 2,000 models, which are marketed under its well-known  and  trademarks to overseas and domestic customers.

In 2002, the Group was ranked number one:

- in terms of turnover in the cotton textile industry of the PRC (Source: 中國棉紡織行業協會 (China Cotton Textile Association)); and
- in terms of the aggregate export value of cotton yarn and grey fabric in the PRC (Source: 中國紡織品進出口商會 (China Chamber of Commerce for Import and Export of Textiles)).

The Group has experienced a significant growth in turnover and net profit during the three years ended 31st December, 2002:



BUSINESS

During the Track Record Period, export sales to overseas market accounted for slightly more than 50% of the Group's total turnover.

Internationally, the Group is able to reach more than 300 overseas customers covering over 20 countries and regions, such as Hong Kong, Japan, South Korea and certain Southeast Asian countries (without quota restrictions) and Europe and the U.S. (to a much lesser extent because of quota restrictions), and has established close relationship with some of the overseas customers including market leaders (such as Fountain Set Group and Texwinca Group) and well-known traders (such as Itochu, Nichimen and Marubeni). For instance, the Group has dedicated production lines for some of its international customers (such as Texwinca Group and Itochu) to provide attentive services and thereby to enhance closer customer relationship. Luteng Textile, a joint venture with Itochu and Profit Rich Company, was set up in September, 2002 to principally engage in the production and sale of spandex core-spun yarn.

Domestically, the Group has an extensive coverage of nearly 2,000 customers in the PRC, many of which are located in Southern and Eastern China, where many large scale textile and garment companies locate.

The Directors believe that the achievements of the Group are essentially attributable to its economies of scale, high product quality, ability to deliver quality products in bulk quantity on a timely basis, effective customer network and highly experienced and committed management and staff. Given the rapid and sustained economic growth of the PRC and the huge business opportunity in the PRC markets, the Directors are of the view that the PRC is ever-becoming the global manufacturing hub attracting the inflow of many manufacturers from different industries around the world. Coupled with the gradual removal of the quota restriction by Europe and the U.S. following PRC's accession into the WTO, the Directors believe that the PRC cotton textile industry will acquire stronger competitiveness and the Group, as the largest cotton textile manufacturer in the PRC in terms of turnover in 2002, will likely be benefited therefrom.

PRINCIPAL STRENGTHS

The Directors believe that the Group has the following principal strengths:

1. **Economies of scale**

The Group was the largest cotton textile manufacturer in terms of turnover in the PRC in 2002. The Group had an aggregate production capacity of about 265,000 tons of cotton yarn, 462 million metres of grey fabric and 157 million metres of denim in 2002. With the acquisition of Industrial Park (whose trial run commenced in September 2002 and full operation is expected to take place around the end of the third quarter of 2003), the Directors expect the Group will have an aggregate production capacity of about 441,000

BUSINESS

tons of cotton yarn, 844 million metres of grey fabric and 157 million metres of denim in 2003. With such a high production capability and output, the Directors believe that the Group has achieved economies of scale to provide itself with competitive edges in reducing its unit fixed production cost and pursuing a more flexible pricing policy.

2. High product quality

All of the cotton yarns produced by the Group are knotless yarns which, if so specified by the customers, could reach the 2001 Uster Statistics category of 25-5%. The Group uses its cotton yarn to produce grey fabric and denim products. The Group's grey fabric product could reach the standard of Four Point System if so specified by the customers. Among the approximately 1,400 grey fabric and denim models, a significant proportion is higher value-added models (for example, elastic fabrics, slub fabrics and high count high density fabrics). With the gradual removal of the quota restrictions by European countries and the U.S. following PRC's accession into the WTO, the Directors believe that the Group is well positioned to further expand into the European and the U.S. markets by capitalising on the quality of the Group's products.

3. Abilities to deliver quality products in bulk quantity on a timely basis

Quick response to customer order has become increasingly important in the textile business. The Group has a comprehensive product range comprising more than 2,000 product models and is able to produce quality products in bulk quantity on a timely basis with its high production capacity. The Directors believe that such abilities have enabled the Group to compete successfully in both the domestic and overseas market and will continue to be a key driving force for its further expansion in the future.

4. Effective customer network

Through years of operation, the Group is dealing with a broad range of customers which domestically covers more than 20 provinces and municipalities directly under the central government of the PRC and internationally extends across more than 20 countries and regions around the world, including Hong Kong, Japan, South Korea and certain Southeast Asian countries (without quota restrictions) and Europe and the U.S. (to a much lesser extent because of quota restrictions). International customers include market leaders (such as Fountain Set Group and Texwinca Group) and well-known traders (such as Itochu, Nichimen and Marubeni). The Group has also established specific production lines dedicated for some of its international customers (such as Texwinca Group and Itochu) to provide attentive services and to enhance closer customer relationship. Luteng Textile, a joint venture with Itochu and Profit Rich Company, was also set up in September 2002 to principally engage in the production and sale of spandex core-spun yarn.

5. Highly experienced and committed management and staff

Most of the Group's management personnel have extensive experience in the cotton textile industry and are familiar with the market environment. The Group also has a stable

BUSINESS

team of efficient and committed staff. In addition, the personal interests of a number of the executive Directors and management Shareholders are aligned with that of the Group's since they will hold about 13.5% interests in the share capital of the Company in aggregate immediately after completion of the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option).

HISTORY AND DEVELOPMENT

Corporate development

The predecessor of the Group, 鄒平縣位橋棉紡織廠 (Zouping County Weiqiao Cotton Spinning Factory) ("Weiqiao Cotton Spinning Factory"), was originally a small cotton processing factory established and wholly owned by ZCSU in the early 50s to engage principally in cotton procurement and the sale of lint cotton. In 1989, under the promotion of Mr. Zhang, who was the then general manager, Weiqiao Cotton Spinning Factory commenced its cotton textile manufacturing business.

Between 1991 and 1998, Weiqiao Cotton Spinning Factory underwent several expansions whereby four yarn spinning and four fabric weaving factories were constructed to constitute the First Production Area, whose total site area is now about 230,600 sq.m..

Immediately before the restructuring of Weiqiao Cotton Spinning Factory in April 1998, it was held as to 75% by ZCSU and 25% by the then 22 senior management officers of Weiqiao Cotton Spinning Factory, who obtained their interests through cash contribution of an aggregate amount of RMB553,500 during the start-up of its cotton textile manufacturing business.

In April 1998, with a view to conducting its cotton textile business through a limited company, Weiqiao Cotton Spinning Factory was restructured and converted into Holding Company with ZCSU and the then 22 senior management officers of Weiqiao Cotton Spinning Factory (or their successors or assigns), holding respectively 75% and 25% of the then registered capital of Holding Company. Holding Company took over all assets and businesses of Weiqiao Cotton Spinning Factory which was subsequently dissolved. As at the Latest Practicable Date, the registered capital of Holding Company was RMB800 million, which was owned as to 90% by ZCSU and 10% by Holding Company Management Shareholders as a result of the Reorganisation.

With an aim to raise funds in the stock markets to support its expansion, the Company was incorporated as a joint stock limited company, which required a statutory minimum of five promoters for establishment. Holding Company, No.2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company, which were all subsidiaries of ZCSU at the time, and Mr. Zhang were invited to participate in the establishment of the Company, which upon incorporation on 6th December, 1999 had a registered capital of RMB202,040,000. As capital contribution, Holding Company, while retaining its fabric weaving business, injected its entire cotton yarn spinning business and

BUSINESS

related production operating assets (including buildings, plants and machineries) and liabilities in the then First Production Area (which together had a then net asset value of about RMB299 million) into the Company and acquired 96.15% equity interest in the Company. Mr. Zhang contributed RMB8 million in cash thereby acquiring 2.57% equity interest in the Company while No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company each contributed RMB1 million in cash and each acquired 0.32% equity interest in the Company.

In January 2000, the Company obtained an export licence to conduct export sales of cotton yarn, grey fabric and denim. To fully utilize the export right under the licence, the Company entered into a processing arrangement with Holding Company pursuant to which Holding Company undertook to provide weaving services in respect of the cotton yarn provided by the Company, which would subsequently arrange for the export of the cotton fabric produced by Holding Company.

In May 2001, the Company acquired from Holding Company the production operating assets (including buildings, plants and machineries) of the four fabric weaving factories located in the then First Production Area for a total sum of about RMB267 million by reference to their appraised net value which was satisfied by the assumption of short term bank loans of about RMB237 million and cash settlement of about RMB30 million. As such, all the production operating assets located at the then First Production Area (except for land use rights) belonged to the Company, which began to engage in the fabric weaving business along with its yarn spinning business.

With the gradual growth of the Company's exports to South Korea, the Company decided to set up a production base in Weihai City, being the nearest port in the PRC to South Korea, to avoid over-reliance on shipments via Qingdao Port. It established Weihai Weiqiao in July 2001 jointly with WCAI. Weihai Weiqiao has a registered capital of RMB148 million, and is owned as to about 87.2% by the Company and about 12.8% by WCAI. Weihai Weiqiao is principally engaged in the production of cotton yarn and grey fabric for exports to South Korea and for the Group's customers at Yantai and Weihai in the PRC. It obtained an export licence in August 2001 to conduct export sales of cotton yarn and cotton fabric and commenced full operation in September 2001. WCAI, the other shareholder of Weihai Weiqiao, is principally engaged in the sale of aviation appliances and equipment.

In November 2001, the Second Production Area and the Third Production Area established by Holding Company commenced full operation and trial run respectively. It was then agreed that Holding Company should cease to be involved in the sale of cotton yarn and grey fabric and the Company would use its sales channels to arrange for the sale of the textile products manufactured at the Second Production Area and the Third Production Area.

To further segregate the businesses between the Company and Holding Company, the parties entered into a leasing agreement dated 28th April, 2002, pursuant to which the

BUSINESS

Company leased from Holding Company the production operating assets of the Second Production Area and the Third Production Area commencing from 1st May, 2002 at the rental of RMB7 million per month which was determined by reference to the monthly depreciation expense of such assets.

In September 2002 (shortly before commencement of full operation of the Third Production Area in October 2002), all the production operating assets (except for land use rights) situated in the Second Production Area and the Third Production Area were injected into the Company as part of the Reorganisation. For details of such injection of assets, please see the paragraph headed “1. Reorganisation of assets structure” below.

Reorganisation

In order to prepare for the Listing, the Company and Holding Company underwent certain reorganisation arrangements including reorganisation of assets and shareholding structures and transfer of intellectual property.

Upon completion of the reorganisation of assets structure on 18th November, 2002 and the increase in the registered capital of Industrial Park in March, 2003, the Company now:

- (i) owns the entire production operating assets situated in the First Production Area (except for those owned by Luteng Textile), the Second Production Area and the Third Production Area, save for the relevant land use rights which the Group leases from Holding Company;
- (ii) owns a 97% interest in Industrial Park;
- (iii) owns a 75% interest in Luteng Textile; and
- (iv) owns an 87.2% interest in Weihai Weiqiao.

Save for Luteng Textile, which was established specifically for the production and sale of spandex core-spun yarn, each of the First Production Area, the Second Production Area, the Third Production Area, Industrial Park and Weihai Weiqiao is equipped with comprehensive spinning and weaving facilities and performs similar function as a yarn and fabric production area under the coordination of the Production Planning Head Office of the Company. For further details, please refer to the paragraph headed “Production Plant and Capacity”.

Upon completion of the reorganisation of shareholding structure on 15th January, 2003, the registered capital of the Company consisted of 530,770,000 Domestic Shares and was owned as to about 77.31% by Holding Company, about 19.86% by the Company Management Shareholders and about 2.83% by three individual shareholders. For details of the shareholding structure of the Group, please refer to the paragraph headed “Group Structure” below.

BUSINESS

1. Reorganisation of assets structure

(1) *Second Production Area and Third Production Area*

Pursuant to a capital increase agreement entered into between the Company and Holding Company on 19th September, 2002, Holding Company injected all of the production operating assets (except for land use rights) and the related liabilities of its then wholly-owned Second Production Area and Third Production Area into the Company. As consideration for the above injection, the Company issued 328,730,000 new Domestic Shares to Holding Company at RMB2.39 per Domestic Share, such price being determined by reference to the appraised net asset value of the relevant injected assets and the net asset value per Domestic Share as at 31st May, 2002.

As a result of the issue of consideration Shares to Holding Company, the registered capital of the Company was increased from RMB202,040,000 to RMB530,770,000 and the corresponding changes in the percentage shareholding of each of the Promoters were: in respect of Holding Company from 96.15% to 98.53%, Mr. Zhang from 2.57% to 0.99% and each of No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company from 0.32% to 0.12%.

On 28th October, 2002, 山東省人民政府 (Shandong Provincial Government) issued 批准證書 (魯政股增字 [2002] 24 號) (an approval certificate (Lu Zheng Gu Zeng Zi [2002] No. 24)) approving the above increase in the registered capital of the Company and the corresponding issue of consideration Shares to Holding Company. After the related registration procedures for such changes have been completed, 山東省工商行政管理局 (Shandong Provincial Administration Bureau for Industry and Commerce) re-issued the business licence of the Company on 5th November, 2002, certifying the increase in the Company's registered capital from RMB202,040,000 to RMB530,770,000.

(2) *Industrial Park*

Industrial Park was jointly established by Holding Company and Binzhou Weiqiao on 26th November, 2001 to produce cotton yarn and grey fabric. Industrial Park is located in Binzhou City, Shandong Province of the PRC and is about 60 km away from the headquarters of the Group. At the time of its establishment, the registered capital of Industrial Park was RMB100 million, of which 90% and 10% of its equity interest was held by Holding Company and Binzhou Weiqiao, respectively. Trial run began in September 2002 and full operation of the entire production area is expected to commence around the end of the third quarter of 2003.

Pursuant to an equity interest transfer agreement entered into between the Company, Holding Company and Binzhou Weiqiao on 16th October, 2002, the Company acquired from Holding Company and Binzhou Weiqiao 90% and 1% equity interest in Industrial Park at a consideration of RMB90 million (which has been offset against the equivalent amounts due to the Company by Holding Company by 31st December, 2002) and RMB1 million (which has been offset against the equivalent amounts due to the

BUSINESS

Company by Binzhou Weiqiao by 31st December, 2002) respectively, and Holding Company acquired from Binzhou Weiqiao its 9% equity interest in Industrial Park at a consideration of RMB9 million. As Industrial Park had just commenced trial run then, the consideration for the above transfers was determined by reference to the amount contributed by each of Holding Company and Binzhou Weiqiao to the registered capital of Industrial Park. The registration procedures for the transfer of equity interests had been completed and Industrial Park was owned as to 91% by the Company and 9% by Holding Company with effect from 18th November, 2002.

Pursuant to the capital verification report, the registered capital of Industrial Park as at 31st March, 2003 was increased from RMB100 million to RMB300 million through the injection of equipment and machinery by the Company. As the aggregate appraised value of those injected equipment and machinery was RMB223,443,780, the difference between the appraised value and RMB200 million (the sum of capital contribution by the Company) amounting to RMB23,443,780 was treated as a debt owed by Industrial Park to the Company. On 11th April, 2003, 濱州市工商行政管理局 (Binzhou City Administration Bureau for Industry and Commerce) re-issued the business licence of Industrial Park. Industrial Park is now owned as to 97% by the Company and 3% by Holding Company.

(3) *Luteng Textile*

On 3rd September, 2002, Holding Company, Itochu and Profit Rich Company entered into a sino-foreign equity joint venture contract to jointly establish Luteng Textile, for the production and sale of mainly spandex core-spun yarn. The production equipment of Luteng Textile are located in the First Production Area and its registered capital is US\$9,790,000.

Prior to the agreed time when the parties were to make their respective contribution in accordance with the joint venture contract, it was agreed that the rights and liabilities of Holding Company under the joint venture contract be novated to the Company at nil consideration. To formalise such arrangement, the Company, Itochu and Profit Rich Company entered into a separate sino-foreign equity joint venture contract on 14th October, 2002, on the same terms and conditions as the aforementioned joint venture contract dated 3rd September, 2002. Such novation was approved and consented to by the board of directors of Luteng Textile on 13th October, 2002 and 山東省濱州市對外貿易經濟合作局 (Foreign Economic and Trade Cooperation Bureau of Binzhou City of Shandong Province) on 21st October, 2002. According to the capital verification report issued on 10th November, 2002, by 20th October, 2002,

- (i) the Company contributed US\$7,340,000 in the form of plant and machinery;
- (ii) Itochu contributed US\$1,000,000 in the form of cash; and
- (iii) Profit Rich Company contributed US\$1,450,000 in the form of non-patent spandex core-spun yarn technology (the value of which was agreed among the joint-venture parties).

BUSINESS

Accordingly, Luteng Textile is now owned as to 75% by the Company, 10.2% by Itochu and 14.8% by Profit Rich Company. According to the joint venture contract, any profits or other distributions to be made by Luteng Textile will be distributed to the parties in accordance with the percentage of their respective contribution. Luteng Textile commenced full operation in November 2002.

2. Reorganisation of the shareholding structure

For the purpose of reorganising the shareholding structures of Holding Company and the Company, three separate equity interest transfer agreements were entered into.

Pursuant to the equity interest transfer agreement dated 16th December, 2002, 11 members of the Company Management Shareholders (namely Zhang Hongxia, Zhang Shixue, Ma Guixia, Zhang Bo, Qi Xingli, Fan Xuelian, Yang Shaogang, Wang Xiaoyun, Jiang Jianling, Kong Deqing, and Song Shoujun) and three individuals (namely Wang Xuesong, Zhang Xianbing, and Li Xiuping) transferred at par their entire respective interest in Holding Company, representing an aggregate of 14.41% of the equity interest in Holding Company to ZCSU.



The 14 individuals then applied the entire proceeds of RMB115,258,900 from such transfers to acquire from Holding Company an aggregate of 115,258,900 Domestic Shares at par pursuant to another equity interest transfer agreement dated 18th December, 2002, representing about 21.72% of the registered capital of the Company. Through the above share swap arrangement, the personal interests of a number of executive Directors and management shareholders aligned with that of the Group.

To simplify the shareholding structure of the Company, a separate equity interest transfer agreement dated 17th December, 2002 was entered into, pursuant to which, No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company transferred each of their entire respective interest in the Company which amounted to 2,600,000 Domestic Shares in aggregate, representing about 0.49% of the registered capital of the Company, to Holding Company at par.


On 27th December, 2002, 山東省人民政府 (Shandong Provincial Government) issued 批准證書 (魯政股字 [2002] 74 號) (an approval certificate (Lu Zheng Gu Zi [2002] No. 74)), approving the above transfers relating to the Company and the registration procedures for the above changes were completed in January 2003.

Upon completion of the Reorganisation and immediately prior to the Share Offer, the Company is owned as to 77.31% by Holding Company, 19.86% by the Company Management Shareholders and 2.83% by three individual shareholders.

3. Transfer of intellectual property rights

The  and  trademarks currently used by the Group have been transferred at nil consideration by Holding Company to the Company. Such transfers were approved by

BUSINESS

中華人民共和國國家工商行政管理總局商標局 (Trademark Bureau of the State Administration for Industry and Commerce of the PRC) and became effective from 14th May, 2001. The  trademark, which has so far not been used by either the Group or Holding Company in any of its products, has also been transferred to the Company by Holding Company at nil consideration. Such transfer was approved by 中華人民共和國國家工商行政管理總局商標局 (Trademark Bureau of the State Administration for Industry and Commerce of the PRC) and became effective from 28th August, 2003. Further details about the intellectual property rights of the Company are set out in appendix VII to this prospectus.

For details of the Reorganisation, please refer to the section headed “Corporate Reorganisation” in appendix VII to this prospectus.

Relationship with Holding Company

1. Before Reorganisation

With an aim to raise funds in the stock markets to support the development of its cotton textile business, Holding Company established the Company as a joint stock limited company in December 1999. The listing plan was subsequently delayed until late 2002. In September 2002, the Company decided to apply for the Listing.

As there had not been a complete segregation of business between the Group and Holding Company until completion of the Reorganisation, extensive inter-group transactions between the Group and Parent Group were conducted during the Track Record Period. Further, various Production Areas were transferred from Holding Company to the Company shortly before or after commencement of the full operation of the relevant Production Area, which transfers are described in more details in the sections headed “Corporate Development” and “Reorganisation”.

Under the applicable accounting guideline, acquisition accounting method is adopted to prepare the Group’s financial statements. As such, the pre-acquisition results of the transferred assets and businesses were not included in the financial statements of the Group and all the inter-group transactions between the Group and Parent Group were identified and treated as related party transactions. For further details, please refer to the paragraph headed “Related party transactions” in the accountants’ report as set out in appendix I to this prospectus.

2. After Reorganisation

Following the Reorganisation and prior to the Share Offer, 410,311,100 Shares were held by Holding Company, representing about 77.31% of the issued capital of the Company. Immediately after completion of the Share Offer and assuming the Over-allotment Option is not exercised, Holding Company will own about 52.57% of the then issued share capital of the Company and will thus be a controlling shareholder of the Company.

BUSINESS

In connection with the Reorganisation, Holding Company has entered into a number of agreements and arrangements with the Company which, upon the Listing, will constitute connected transactions under the Listing Rules. For details of such transactions, please refer to the section headed “Connected Transactions”.

Currently, Holding Company has retained certain interests in the downstream textile dyeing and printing businesses and corduroy production business, which are separate and different from the Group’s core cotton spinning and fabric weaving businesses, as they require different and separate production facilities, technologies and expertise. However, to support possible vertical integration of the Group’s business in the future, the Company and Holding Company entered into a right of first refusal agreement on 25th August, 2003 pursuant to which, Holding Company has granted to the Company a right of first refusal to acquire its entire interests in the downstream textile dyeing and printing businesses and corduroy production business including:

- (1) a 60% interest in Weiqiao Dyeing, whose main product is corduroy;
- (2) a 65% interest in Weilian Print, whose main product is dyed fabric; and
- (3) a 40% interest in Weiqiao Bleach, whose main product is dyed cotton yarn,

on terms no less favourable than those offered to or by any independent third party. The Group’s current strategy is to focus on its core businesses and not to enter into the cotton textile downstream business and corduroy production business as the production technology of PRC enterprises for such businesses, in general, is immature. Accordingly, the Company does not at present have any intention to exercise its first right of refusal to acquire Holding Company’s interests in Weiqiao Dyeing, Weilian Print or Weiqiao Bleach before the end of 2005. The Company will strictly comply with all the relevant requirements under the Listing Rules if such first right of refusal is exercised.

On 25th August, 2003, Holding Company and the Company entered into an equipment transfer agreement, pursuant to which Holding Company has agreed to transfer to the Company all rights and benefits to all of its cotton processing equipment at nil consideration immediately upon the Company obtaining a cotton purchase and processing permit and deliver such equipment to the Company within 30 business days thereof. Such arrangement is aimed at avoiding further connected transaction with Holding Company in this regard. It is currently expected that the Company would obtain such permit around the fourth quarter of 2003.

Holding Company has also entered into the Non-Competition Agreement with the Company pursuant to which Holding Company has undertaken to the Company, among other things, that it, and it shall procure that each of its subsidiaries and associates, shall not, either on its own or together with any third party invest, participate or engage in any

BUSINESS

business which may compete with any core business of the Group (which means the production, sale and distribution of cotton yarn, grey fabric and denim) or any business proposed to be carried on by the Group as disclosed in this prospectus, or have any interest in such business.

With all the aforesaid agreements in place, it is the intention of Holding Company to treat its electricity and steam supply operations as its main business in the near future and, should opportunity arise, to extend its business to areas other than textile to maintain a complete segregation of businesses between Parent Group and the Group.

Relationship with ZCSU

ZCSU holds a 90% interest in Holding Company and will indirectly control about a 52.57% interest in the Company immediately after completion of the Share Offer (assuming the Over-allotment Option is not exercised) and is therefore an indirect controlling shareholder of the Company. As a collectively owned enterprise established and validly existing under the PRC laws, ZCSU possesses the status of an independent legal corporate person. ZCSU, under the supervision of the Government of Zouping County, has set up a council which acts as the representative of ownership, and the manager of its assets. The council has the right to appoint and remove the persons in charge of the enterprises which it owns (including Holding Company), the right of approval in relation to major operation and investment activities, the right of supervision regarding the operation and management and the right to distribution of profit and assets, in respect of those same enterprises.

Pursuant to 關於深化供銷合作社改革的決定 (Decision on the Further Reform of the Supply and Marketing Cooperatives) issued by the State Council, ZCSU should undergo structural reform with the members and the structure of its council being decided by a representative meeting under democratic principles. Such reform should be conducted and implemented under the leadership of the Communist Party Committee and Government of Zouping County. As at the Latest Practicable Date, ZCSU had not yet completed such reform and the members of its council were selected through recommendation by the Government of Zouping County.

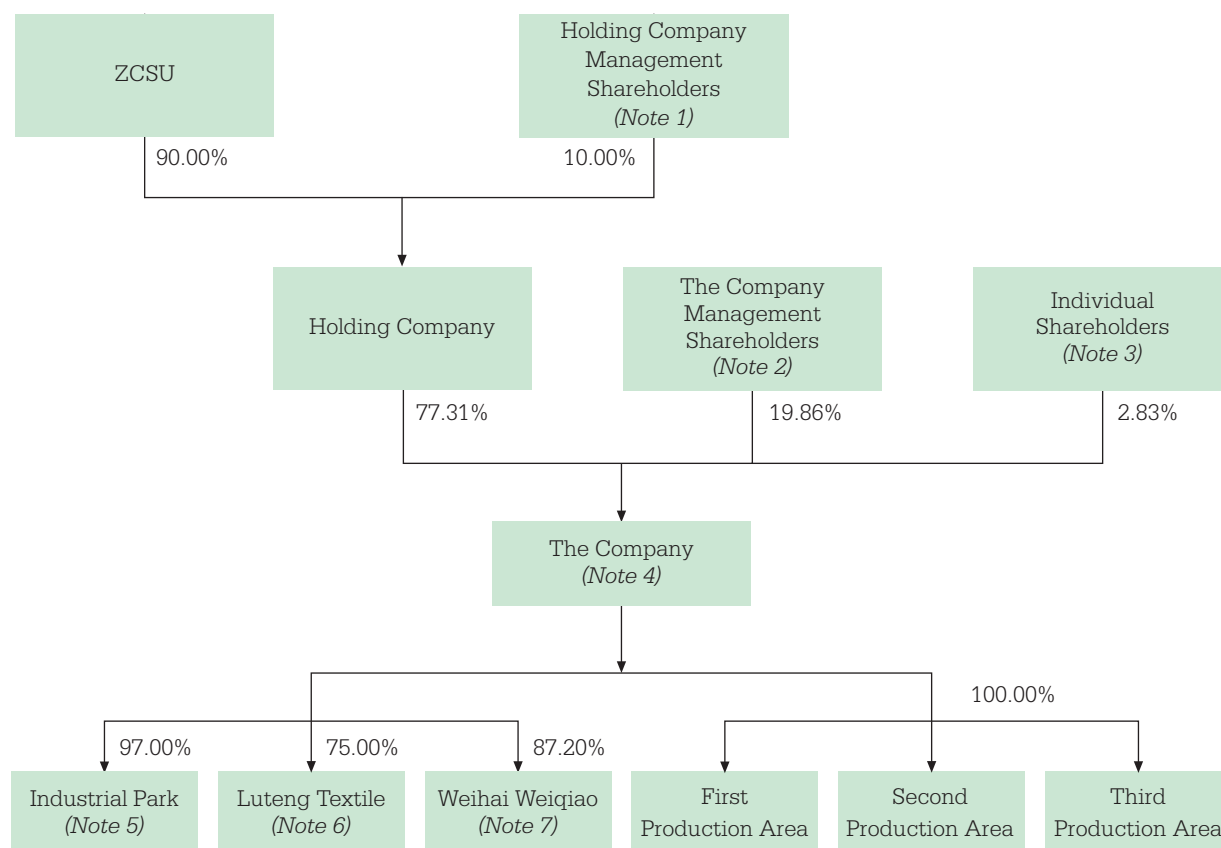
ZCSU, pursuant to its business licence, is allowed to conduct the business of food processing, purchase of agricultural secondary produce and waste produce, carpet processing, cotton and garment, and agricultural machinery. As at the Latest Practicable Date, save and except for the Group, among the other 14 enterprises in which ZCSU had a controlling interest, none of which was engaged in the production of cotton yarn, grey fabric and denim.

ZCSU is also a signing party to the Non-Competition Agreement, pursuant to which ZCSU has undertaken to the Company, among other things, that it, and it shall procure that each of its subsidiaries and associates, shall not, either on its own or together with any third party invest, participate or engage in any business which may compete with any core business of the Group (which means the production, sale and distribution of cotton yarn, grey fabric and denim) or any business proposed to be carried on by the Group as disclosed in this prospectus, or have any interest in such business.

BUSINESS

GROUP STRUCTURE

The following chart illustrates the Group's shareholding structure upon completion of the Reorganisation and immediately prior to the Share Offer:



Notes:

- (1) The table below illustrates the names of Holding Company Management Shareholders and their respective approximate interests in Holding Company:

Name	Interest	Name	Interest
	(%)		(%)
Mr. Zhang	4.53	Yang Congsen	0.42
Wei Yingzhao	1.81	Guo Zhenji	0.75
Miao Rumei	1.03	Zhang Shijun	0.91
Sun Chenglin	0.25	Zhang Yan	0.30

Mr. Zhang is a non-executive director of the Company. Except for their indirect interests in the Group held through Holding Company, each of the other persons named above is independent of the Group.

BUSINESS

- (2) The table below illustrates the names of the Company Management Shareholders and their respective approximate interests in the Company:

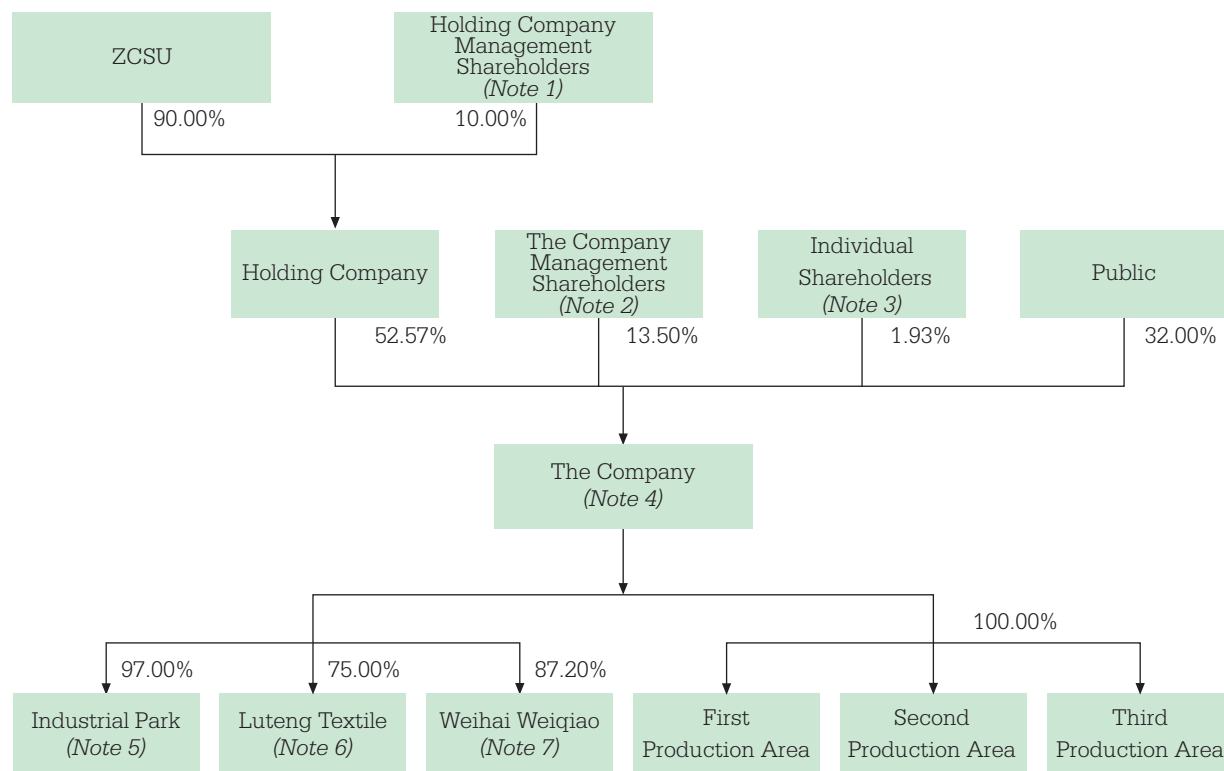
Name	Interest (%)	Name	Interest (%)
Zhang Hongxia	3.34	Zhang Shixue	3.30
Ma Guixia	2.60	Zhang Bo	2.44
Qi Xingli	1.52	Fan Xuelian	1.46
Yang Shaogang	0.98	Mr. Zhang	0.98
Wang Xiaoyun	0.94	Jiang Jianling	0.93
Kong Deqing	0.70	Song Shoujun	0.67

Zhang Bo is an executive director and chairman of the Company. Zhang Hongxia is an executive director and general manager of the Company. Qi Xingli is an executive director, deputy general manager and financial controller of the Company. Mr. Zhang is a non-executive director of the Company. All of the other Company Management Shareholders are also employees of the Company.

- (3) The three individual shareholders are Wang Xuesong, Zhang Xianbing and Li Xiuping, who are interested in 1.35%, 0.87% and 0.61% of the Company respectively. Except for their shareholdings in the Company, the individual shareholders are independent of the Group.
- (4) Comprising the entire production operating assets (save for the relevant land use rights which the Group leases from Holding Company) situated in the First Production Area (except for those owned by Luteng Textile), the Second Production Area and the Third Production Area.
- (5) Holding Company holds 3% of equity interest in Industrial Park. The principal business of Industrial Park is the production of cotton yarn and grey fabric.
- (6) Each of Itochu and Profit Rich Company holds 10.2% and 14.8% of equity interest in Luteng Textile respectively. The principal business of Luteng Textile is the production and sale of mainly spandex core-spun yarn. The production equipment of Luteng Textile is located in the First Production Area.
- (7) WCAI holds 12.80% of equity interest in Weihai Weiqiao. The principal business of Weihai Weiqiao is the production of cotton yarn and grey fabric.

BUSINESS

The following chart sets out the Group's shareholding structure immediately after completion of the Share Offer, assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option:



Notes:

- (1) The table below illustrates the names of Holding Company Management Shareholders and their respective approximate interests in Holding Company:

Name	Interest (%)	Name	Interest (%)
Mr. Zhang	4.53	Yang Congsen	0.42
Wei Yingzhao	1.81	Guo Zhenji	0.75
Miao Rumei	1.03	Zhang Shijun	0.91
Sun Chenglin	0.25	Zhang Yan	0.30

Mr. Zhang is a non-executive director of the Company. Except for their indirect interests in the Group held through Holding Company, each of the other persons named above is independent of the Group.

BUSINESS

- (2) The table below illustrates the names of the Company Management Shareholders and their respective approximate interests in the Company:

Name	Interest (%)	Name	Interest (%)
Zhang Hongxia	2.27	Zhang Shixue	2.24
Ma Guixia	1.77	Zhang Bo	1.66
Qi Xingli	1.03	Fan Xuelian	0.99
Yang Shaogang	0.67	Mr. Zhang	0.67
Wang Xiaoyun	0.64	Jiang Jianling	0.63
Kong Deqing	0.47	Song Shoujun	0.46

Zhang Bo is an executive director and chairman of the Company, Zhang Hongxia is an executive director and general manager of the Company. Qi Xingli is an executive director, deputy general manager and financial controller of the Company. Mr. Zhang is a non-executive director of the Company. All of the other Company Management Shareholders are also employees of the Company.

- (3) The three individual shareholders are Wang Xuesong, Zhang Xianbing and Li Xiuping, who are interested in 0.92%, 0.59% and 0.42% of the Company respectively. Except for their shareholdings in the Company, the individual shareholders are independent of the Group.
- (4) Comprising the entire production operating assets (save for the relevant land use rights which the Group leases from Holding Company) situated in the First Production Area (except for those owned by Luteng Textile), the Second Production Area and the Third Production Area.
- (5) Holding Company holds 3% of equity interest in Industrial Park. The principal business of Industrial Park is the production of cotton yarn and grey fabric.
- (6) Each of Itochu and Profit Rich Company holds 10.2% and 14.8% of equity interest in Luteng Textile respectively. The principal business of Luteng Textile is the production and sale of mainly spandex core-spun yarn. The production equipment of Luteng Textile is located in the First Production Area.
- (7) WCAI holds 12.80% of equity interest in Weihai Weiqiao. The principal business of Weihai Weiqiao is the production of cotton yarn and grey fabric.

BUSINESS

PRODUCTS

Types of Product

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. The following table summarises the turnover of the Group's major product categories for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003:

Product Category	For the year ended 31st December,						For the three-month period ended 31st March, 2003	
	2000		2001		2002			
	<i>Turnover</i>							
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cotton yarn	1,031,496	66.2	1,118,096	47.5	2,076,927	47.4	599,242	47.7
Grey fabric	505,786	32.4	863,914	36.7	1,417,589	32.4	482,464	38.5
Denim	<u>22,002</u>	<u>1.4</u>	<u>371,627</u>	<u>15.8</u>	<u>886,407</u>	<u>20.2</u>	<u>173,362</u>	<u>13.8</u>
Total	<u>1,559,284</u>	<u>100.0</u>	<u>2,353,637</u>	<u>100.0</u>	<u>4,380,923</u>	<u>100.0</u>	<u>1,255,068</u>	<u>100.0</u>

Product Range

The Group has a comprehensive range of products comprising about 800 cotton yarn models, 1,000 grey fabric models and 400 denim models.

All of the cotton yarns produced by the Group are knotless yarn which, if so specified by customers, could reach the 2001 Uster Statistics of 25-5%. Out of the 800 cotton yarn models, there are about 350 types of carded yarn (ranging from 5 counts to 40 counts), 350 types of combed yarn (ranging from 18 counts to 120 counts), 100 types of open-end spun yarn (which are used for denim production).

As there is an increasing demand for high count yarn of different variety, the Directors intend to increase the relative proportion of combed yarn and the variety of models by the gradual upgrade of machinery and equipment and the use of more modern materials such as spandex, tencel and modal. In an effort to improve the processing techniques and hence the quality of spandex core-spun yarn produced by the Group, Luteng Textile was set up in September 2002.

BUSINESS

The Group, as an integrated cotton textile producer, uses its own cotton yarn to produce its grey fabric and denim. Given the variety and quality of the cotton yarn produced by the Group, the Group has developed a wide range of high quality fabric products. Out of the 1,000 fabric models, there are about 600 types of plain fabric (including coarse plain fabric, medium plain fabric, broad fabric, poplin broad fabric, down-proof fabric and elastic plain fabric), 150 types of twill weave fabric (including 2/1 twill weave fabrics and elastic twill weave fabrics), 100 types of tribute silk series (including tribute silk and elastic tribute silk), 100 types of jacquard series (including jacquard pattern and dobby fabric) and 50 types of khaki drills (including khaki drills and elastic khaki drills).

Amongst the fabric models, higher value-added products comprising high count and high density fabric (which means, warp and weft of which are both of 40 counts or above with a density of 200 individual warp and weft yarns in aggregate per inch or above), elastic and high count fabric and jacquard fabric, account for a significant proportion. The Directors intend to increase the proportion of such higher value-added products in the composition of its product mix by strengthening the overall innovation capability of the Group. For details of the Group's innovation capability, please refer to the section headed "Research and Development".

ACCREDITATION

The Directors believe that the Group's products are widely recognised for their quality in the cotton textile industry both within and outside the PRC.

Before completion of the Reorganisation, Holding Company was awarded the following accreditations in respect of management methods, design and production, product quality and compliance with environmental protection requirements for its cotton spinning and fabric weaving:

Accreditation	Product	Issuing organization	Area of accreditation	Date of issue	Renewal date of certificate
ISO9001: 2000 Standards	Yarn and fabric design, production, sale and servicing	CCIC	Quality Management Systems Accreditation	28th February, 2002	27th February, 2005

BUSINESS

Accreditation	Product	Issuing organization	Area of accreditation	Date of issue	Renewal date of certificate
ISO14001: 1996 Standards	Production, sale, servicing and related environmental management of pure cotton and blend cotton yarn, cotton and blended grey fabric and denim	CQC	Environmental Management System Accreditation	11th December, 2002	10th December, 2005

Since Holding Company injected all its cotton spinning and fabric weaving businesses into the Group in the course of the Reorganisation, Holding Company will apply to transfer the above certifications to the Company's name upon their renewal in 2005. As the Group has adopted and implemented various internal procedures and guidelines in accordance with the ISO standards, the Directors are confident that the renewal of the above certifications could be obtained.

PRODUCTION

Production Plant and Capacity

The Group has a total of five production areas, namely, the First Production Area, the Second Production Area, the Third Production Area, Industrial Park and Weihai Weiqiao, which are all situated in Shandong Province, the PRC with an aggregate gross floor area for production of about 1,342,200 sq.m. Save for denim which can only be produced in the First Production Area, each of the Production Areas is equipped with comprehensive spinning and weaving facilities and is able to produce the various models of products under the coordination of the Production Planning Head Office of the Company.

At the end of each year, the Production Planning Head Office of the Company co-ordinates and formulates the next annual production plan based on the estimated annual production capability of the Production Areas and produces a monthly production plan for each of the Production Areas according to customers' orders. In 2002, the Group produced an aggregate of about 161,800 tons of cotton yarn, 264 million metres of grey fabric and 91 million metres of denim.

BUSINESS

The Group had an aggregate production capacity of about 265,000 tons of cotton yarn, 462 million metres of grey fabric and 157 million metres of denim in 2002. With the acquisition of Industrial Park (whose trial run commenced in September 2002 and full operation is expected to take place around the end of the third quarter of 2003), the Directors expect the Group will have an aggregate production capacity of about 441,000 tons of cotton yarn, 844 million metres of grey fabric and 157 million metres of denim in 2003.

However, the annual production capacity is determined based on certain assumptions including, amongst others, the ability of the Production Areas to sustain full operation of 24 hours a day for 365 days a year, the operating efficiency of all the machineries installed being no less than 90%, the various types of machineries employed in different production stages being well synchronized, the operating staff being well-trained and fully familiar with the operation of the machineries and certain product mix. Given the above assumptions, the actual output of the Group may differ from the production capacity as described above.

Utilisation Rate

Since the commencement of full production (except during the trial run period and the optimising period ranging from six months to one year and three months to six months respectively, subject to the numbers and types of machineries employed), each of the Production Areas has been operating at 24 hours a day on shift duty basis. However, as actual output depends on a number of factors such as the skill level of operating staff, the time required for optimisation and the degree of synchronization between the various types of machineries employed in different stages of production, the Group's average capacity utilisation rate in 2002 (which was determined by reference to the Group's production capacity and its actual output in 2002) was about 60%.

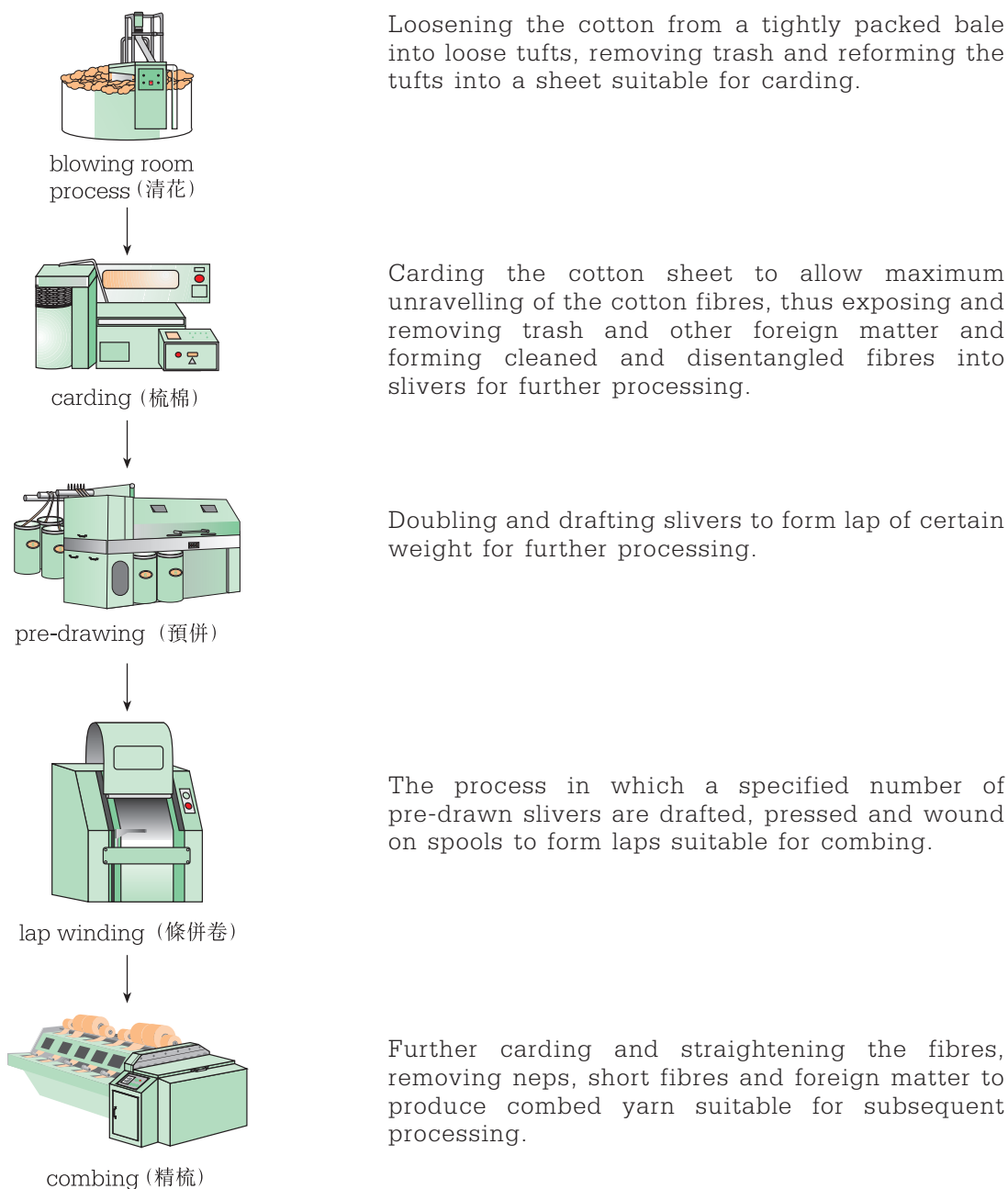
The Directors believe that the comparatively low utilisation rate recorded in 2002 was primarily due to the fact that the Third Production Area, which the Company leased from May to September of 2002 and subsequently acquired at the end of September 2002, underwent a trial run period and went through the subsequent optimising period in October 2002. With the expected completion of Industrial Park's trial run period and optimising period around the end of the third quarter of 2003 and the first quarter of 2004 respectively, the Directors expect the Group to achieve an average capacity utilisation rate of about 70% in 2003. The Directors believe that the utilisation rate of each of the Production Areas, after full operation and upon optimisation, can reach about 90% at all times. None of the Production Areas has ever suspended operation as a result of insufficient customers' orders.

Production Process

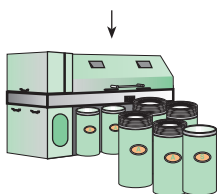
1. *Spinning*

Spinning lint cotton into yarn generally involves such main processes as **blowing room process, carding, drawing, roving, spinning, winding** and **processing**. An additional combing process is required for production of combed yarn, a higher quality yarn for use in textiles with higher quality requirements such as high-end T-shirts and poplins.

The following illustrates the major spinning procedures adopted by the Group in producing combed cotton yarn:



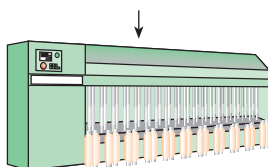
BUSINESS



first passage drawing,
second passage drawing
(一併、二併)

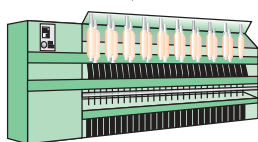
Feeding several slivers into a draw frame and doubling and drafting them into one to improve the uniformity of the slivers and to straighten the fibres in the slivers. Two drawing processes are used.

Three drawing processes are required for production of cotton polyester blend



roving (粗紗)

The process in which silver is attenuated and twisted to produce roving suitable for spinning.

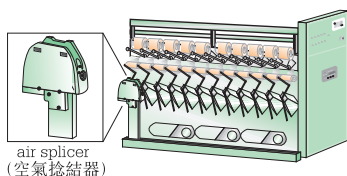


spinning (細紗)

The last stage of processing in which the fibres are further attenuated and twisted to produce a continuous twisted strand of yarn.

winding (絡筒)

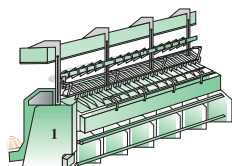
To form bigger yarn packages suitable for transportation and subsequent processes from yarn on spinning cops which is of discontinuous nature.



air splicer
(空氣捻結器)

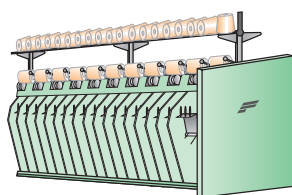
regular winding (普絡)

Winding by regular winding machine.



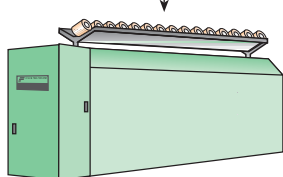
automatic winding
(自絡)

Winding by automatic winding machine.



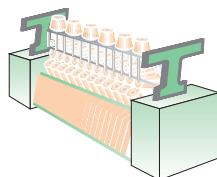
plying (併線)

Doubling two or more singles yarns for double twisting.



double twisting (倍捻)

Further twisting of the yarns to form ply yarn for subsequent packaging and processing.



reeling (搖紗)

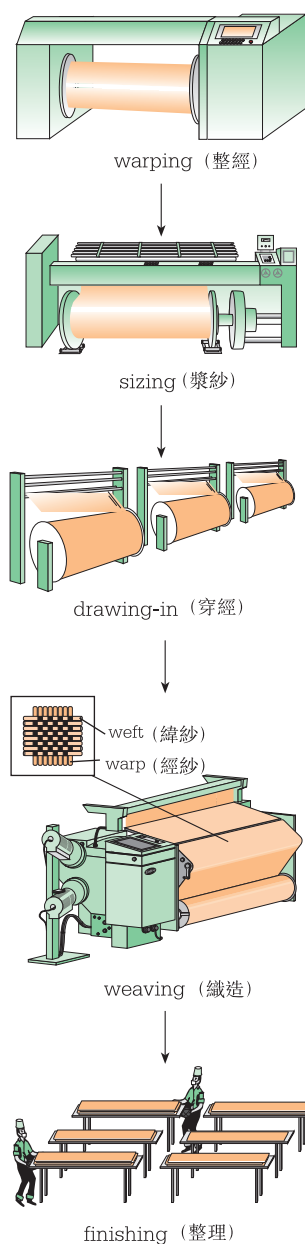
Winding cheeses into yarns of required length and number of turns in a reel for packaging and processing.

2. Fabric Weaving

As an integrated textile producer, the Group uses its own cotton yarn for fabric weaving which generally involves such main processes as **warping**, **sizing**, **drawing-in**, **weaving** and **finishing**.

The following illustrates the major procedures adopted by the Group in producing cotton grey fabric and denim:

(A) Cotton Grey Fabric:



Arranging threads withdrawn from a warping creel in long length parallel to one another by evenly spacing them in sheet form and wounding onto a beam.

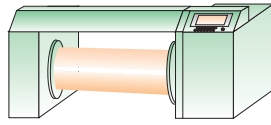
The process during which size is applied to the warp to give suitable weavability.

The process of threading the warp ends, which may be leased, through the drop wires of the warp stop motion, the heald wire of the heald frames and the dents at the reed for preparation of weaving.

The process of interlacing two yarns to cross each other at right angles according to technical requirement to produce fabric. The warp runs lengthwise and the weft runs perpendicular to warp, the interwoven of which produces fabric.

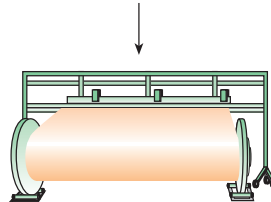
The processes of cloth inspection, mending, second inspection and packaging.

(B) Denim:



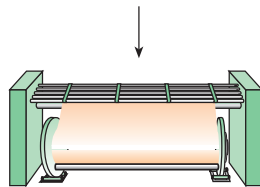
warping (整經)

Arranging threads withdrawn from a warping creel in long length parallel to one another by evenly spacing them in sheet form and wounding onto a beam.



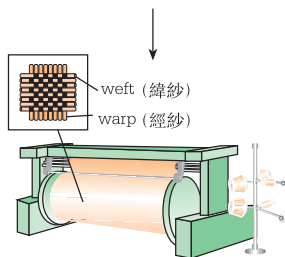
slasher dyeing (漿染)

The process of dyeing and then applying size to the warp in order to meet technical requirement and enhance the weavability.



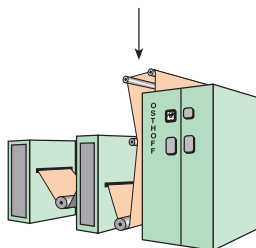
drawing-in (穿經)

The process of threading the warp ends, which may be leased, through the drop wires of the warp stop motion, the heald wire of the heald frames and the dents at the reed for preparing of weaving.



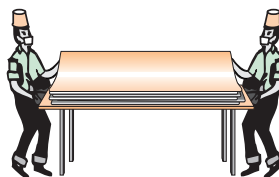
weaving (織造)

The process of interlacing two yarns to cross each other at right angles according to technical requirement to produce fabric. The warp runs lengthwise and the weft runs perpendicular to warp, the interwoven of which produces fabric.



shrinkage (縮水)

The processes of singeing, soaking, shrinking and reshaping after cloth inspection and mending.



finishing (整理)

The processes of inspecting the denim after shrinkage and packaging.

BUSINESS

PROCUREMENT

Raw materials

Raw materials for the production of cotton yarn are mainly lint cotton, which accounted for more than 85% of the raw materials purchased by the Group during the Track Record Period. The percentage of lint cotton in value sourced from the PRC and overseas suppliers for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 is set out below:

	For the year ended 31st December,			For the three-month period ended 31st March,
	2000	2001	2002	2003
	%	%	%	%
PRC	97.3	97.3	72.2	48.6
Overseas	2.7	2.7	27.8	51.4

Overseas procurement is principally attributable to the purchase from Uzbekistan, the United States, Australia and Benin. The Group uses its own cotton yarn for the production of its grey fabric and denim. In 2002, the amount of cotton yarn used by the Group in its production of grey fabric and denim equalled to about 59% of the cotton yarn it produced.

Purchase of lint cotton

In the PRC, lint cotton is classified into seven categories according to the amount of impurities, lustre characteristic and degree of maturity, with category 1 denoting the best quality type. In 2002, over 95% of the lint cotton purchased by the Group belonged to category 1 to 3. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, lint cotton accounted for about 75%, 74%, 75% and 75% respectively, of the Group's cost of sales of cotton yarn; while cotton yarn accounted for about 74%, 79%, 79% and 80% respectively, of the Group's cost of sales of grey fabric. Cotton yarn also accounted for about 78%, 72%, 74% and 75% respectively, of the Group's cost of sales of denim.

To maintain a smooth production process, the Group's policy is to maintain a minimum stock of lint cotton to meet production demand for 30 to 45 days. In determining the inventory level, the cotton procurement department of the Company which is responsible for the Group's procurement of lint cotton would also take into account the expected price trend of lint cotton from time to time.

BUSINESS

As restriction was imposed on imports of overseas lint cotton, the Group mainly sourced its supply from domestic suppliers in 2000 and 2001. Since PRC's accession into the WTO in December 2001, the PRC government has implemented a tariff related quota system whereby a preferential tariff of 1% is imposed on imports of overseas lint cotton within the quota and a tariff of 47.2% (for imports from most favoured nations) or 125% (for imports from other nations) on imports exceeding the quota. The Group is also entitled to apply for an exemption from tariff and value-added tax in respect of imported lint cotton used specifically in the production of yarn or fabric for export. Given such relaxation, the Group has gradually increased the proportion of imported lint cotton in its overall purchases from 2.7% in 2001, to 27.8% in 2002 and 51.4% in the first quarter of 2003. The Company obtained import quota for the use of the Group of about 82,500 tons in 2002 and 182,500 tons in the first five months of 2003.

Overseas lint cotton imported by the Group is mainly from Uzbekistan and the U.S.. In general, purchase orders will be placed by the Company, in advance specifying the month in which lint cotton is expected to be shipped. The Company then has to apply to the local Foreign Trade Commission for approval and to the provincial Planning Commission for an import quota. The Group has not experienced any material difficulties in obtaining approvals for importing overseas lint cotton since the relaxation following PRC's accession into the WTO. For both Uzbekistan-imported and US-imported lint cotton, it would usually take about one month for the lint cotton to reach the Company upon confirmation of shipment date. In relation to the purchase of domestic lint cotton, it would take less than a week from the time an order is placed by the Company to the time when the lint cotton is delivered to the Company.

Before the reform of the PRC cotton distribution system in 1999, Holding Company was one of those cotton processing enterprises permitted to conduct direct purchase of raw cotton from peasants. It owned, and still owns, certain cotton processing facilities located in Zouping County adjacent to the Third Production Area, and had an annual production capacity of about 25,000 tons as of 31st May, 2003. Holding Company has been one of the five largest suppliers of lint cotton of the Group. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, purchases of lint cotton and tailings from Holding Company accounted for about 16%, 7%, 9% and 10% respectively, of the Group's purchases in aggregate.

To avoid further connected transactions with Holding Company in connection with the purchase of lint cotton, Holding Company and the Company entered into an equipment transfer agreement on 25th August, 2003 pursuant to which Holding Company has agreed to transfer to the Company all rights and benefits to all of its cotton processing equipment at nil consideration upon the Company obtaining a cotton purchase and processing permit which is expected to be available around the fourth quarter of 2003. Industrial Park, a 97% owned subsidiary of the Company, has already obtained a cotton purchase and processing permit in November 2002 and is able to produce about 25,000 tons of lint cotton per annum.

BUSINESS

Suppliers

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, purchases from the five largest suppliers in terms of value accounted for about 66%, 47%, 49% and 59% of the Group's purchase in aggregate respectively while purchases from the largest supplier accounted for about 23%, 24%, 34% and 24% of the Group's purchase in aggregate for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively.

Holding Company was the largest supplier in 2000, 2001 and 2002 and the second largest in the first quarter of 2003 and Binzhou Weiqiao (before cessation of its cotton textile business in November 2002), a 75% owned subsidiary of Holding Company, was the fourth largest supplier of the Group in 2000 and the third largest in 2001 and 2002. As at the Latest Practicable Date, Mr. Zhang (a non-executive Director) was the chairman and a shareholder of Holding Company and the chairman of Binzhou Weiqiao, and Ms. Zhang Hongxia (an executive Director and the general manager of the Company) was a non-executive director of Holding Company. Save for the above, none of the Directors, Supervisors, their respective associates or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's issued capital) had any interest in any of these suppliers of the Group as at the Latest Practicable Date.

Should the "Discontinuing transactions" as described under the section headed "Related party transactions" of the accountants' report as set out in appendix I to this prospectus be excluded, purchases from the five largest suppliers in terms of value would have accounted for about 61%, 36%, 18% and 57% of the Group's purchase in aggregate for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively; while purchases from the largest supplier accounted for about 21%, 12%, 6% and 26% of the Group's purchase in aggregate for the same period. Holding Company, as a supplier of lint cotton, would have been the second largest supplier of the Group in 2000, the third largest in 2001, the second largest in 2002 and in the first quarter of 2003. The Directors expect that the Group will not purchase lint cotton from Holding Company by the end of 2003 after the Company has obtained a cotton purchase and processing permit.

For the three years ended 31st December, 2002 and the three months ended 31st March, 2003, all the payments of the Group to domestic suppliers were mainly made upon delivery and were paid in Renminbi, while payments for imported materials, principally in US dollars, were all made by letters of credit payable on sight or usance (150 days in general).

The Group has not experienced any significant difficulties in sourcing raw materials during the three years ended 31st December, 2002 and the three months ended 31st March, 2003. With the opening up of the cotton textile industry of the PRC, the Directors do not anticipate that the Group will face any material difficulties in sourcing raw materials.

BUSINESS

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the average payment period (i.e., balance of accounts payable as at the end of each year or period over average daily sales made in the respective year or period) was 21 days, 37 days, 36 days and 83 days respectively. The increase in average payment period in 2001 and 2002 was mainly due to the depressed textile market resulting in an extended payment period granted to the Company by its suppliers. The significant increase in payment period to 83 days in the first quarter of 2003 was mainly due to bulk imports of lint cotton by the Company where overseas cotton suppliers would generally allow for a longer payment period of 150 days.

Consumption of electricity and steam

Continuous and steady supply of electricity is important for the Group's operation. The Group also needs continuous and steady supply of steam to maintain an optimum temperature and humidity for its production process. As cotton fibres contain cotton wax which may absorb moisture in the air or lose moisture by evaporation, the physical conditions of fibres (such as strength, extension, conductivity, softness and regain) can be affected by a change in humidity and temperature.

During the Track Record Period, the Group had not experienced any material interruption of operation as a result of electricity or steam suspension. In 2002, the amount incurred by the Group for electricity and steam accounted for about 4% of the Group's cost of sales.

Holding Company owns two coal-fired electric power plants in Zouping County and one coal-fired electric power plant in Binzhou City with an aggregate installed capacity of 306 MW as of 31st March, 2003. Steam is produced during power generation. During the Track Record Period, all the electricity and steam consumed by the Company, Luteng Textile and Industrial Park during yarn and fabric production were purchased from Holding Company. Weihai Weiqiao has its own boilers supplying steam for its production use. The electricity consumed by Weihai Weiqiao during the Track Record Period was purchased from a local supplier in Weihai City. In accordance with the supply of electricity and steam agreement entered into between the Company and Holding Company on 25th August, 2003, Holding Company has agreed to supply electricity and steam to the Group. Details of such agreement are set out in the section headed "Connected transactions".

As a contingency plan for the electricity supply, the Group has obtained written consent from each of 山東鄒平電力集團有限公司 (Shandong Zouping Electricity Group Company Limited) and 濱洲供電公司 (Binzhou Electricity Supply Company) that it would, within two hours of receipt of written notification from the relevant Group member, provide it with all necessary electricity it requires for normal production at the then market price. As a contingency plan for the steam supply, the Group can install its own boilers within two

BUSINESS

days' time to provide an optimum temperature and humidity for its fabric production. With these contingency plans, the Directors do not expect any material adverse impact on the Group's operation should there be any interruption of the electricity or steam supplied by Holding Company.

INVENTORY CONTROL

The Group has warehouses located in each of its Production Areas for storage of raw materials (mainly lint cotton) and finished goods. Proper storage procedures are implemented to ensure that stored goods are kept in appropriate conditions. In particular, there are installations in the warehouses specifically designed to prevent stored goods from being damaged by moisture and dampness on the ground.

The Group's inventory balance includes raw materials, work-in-progress, semi-finished goods, finished goods, consigned materials for processing, consumables and raw materials in transit. According to the Group's internal control policy on inventory management, persons in charge of the warehouses are required to examine all incoming items to ascertain their conditions. In addition, records of all incoming and outgoing items are required to be kept and be provided to the responsible department. Periodic stock takes are also required to be carried out to ensure that the number of stored items correspond with all record entries recorded during the relevant period.

Following the increase in the Group's production capacity and sales during the Track Record Period, the level of inventory rose. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the Group's inventory turnover (i.e., balance of inventory as at the end of each year or period over average daily cost of sales incurred in the respective year or period) was about 73 days, 64 days, 73 days and 110 days respectively while the amount of inventory represented about 26.3%, 13.4%, 13.5% and 18.1% respectively of the Group's total assets.

Inventories are stated at the lower of cost and net realisable value. It is the Group's policy that full provision be made to inventory balances over 12 months' old while specific provisions be made based on regular assessment of the saleable and physical condition of inventories. The Group has general provisions for inventories (entirely related to denim) amounting to nil, nil, about RMB14.9 million and about RMB10.5 million respectively for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively. No specific provision was made during the same period. The net realizable values of cotton yarn and grey fabric at the end of each year or period during the Track Record Period were in excess of their respective carrying costs. In addition, the Group did not have cotton yarn and grey fabric aged over three months at the end of each year or period during the Track Record Period. As such, no provision, general or specific, for cotton yarn and grey fabric were required during the Track Record Period.

BUSINESS

The Group's general provision for inventories is made at a specific percentage on the aging of inventories as follows:

Aging of inventories	%
Within 3 months	0
Over 3 to 6 months	50
Over 6 months to 1 year	75
Over 1 year	100

The Group did not have any obsolete stock written off during the Track Record Period.

QUALITY CONTROL

The Group recognises the importance of strict quality control over its products and has implemented a comprehensive quality control system. As at 31st March, 2003, the Group had over 9,400 quality control and product development staff.

The quality control system of the Group includes the following areas:

- **Purchase of raw materials** — Sample test is conducted prior to the confirmation of orders to ensure the quality of lint cotton.
- **Production** — At each of the Production Areas which has its own product testing laboratories, comprehensive test and research analysis on the quality of the semi-finished and finished products are conducted to ensure that customers' specifications are strictly adhered to. International quality control standard such as 2001 Uster Statistics is used as quality benchmark for yarn and if so required by customers, for instance, the Four Point System of the U.S. will be adopted for the testing and quality control procedures of grey fabric.
- **Inventory storage** — Proper procedures are laid down to ensure no derogation of product quality during storage and transportation.
- **Machinery and equipment management** — Regular inspections and maintenance are carried out by the Group's equipment administrators to ensure optimum performance of machinery and equipment.
- **Sales** — The Group's sales staff are responsible for collecting customers' opinions and handling customers' complaints appropriately and in a timely manner.
- **Staff quality awareness and reward system** — Regular training and continuous assessment of staff is conducted. To further promote the quality awareness of staff, an incentive scheme has been put in place whereby staff will be entitled to bonus if target is met while product quality is maintained. However, staff may face pay-cut if problems arise in product quality.

BUSINESS

MARKETING AND SALES

Market and customers

The Group places equal emphasis on its international and domestic markets. Through years of operation, it has established an effective customer networking system through its own sales team and the engagement of agents. As at 31st March, 2003, the Group was dealing with more than 300 overseas customers (including Hong Kong) and nearly 2,000 domestic customers.

The table below sets out the sales analysis of the Group by domestic sales and export sales for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003:

	For the year ended 31st December,						For the three-month period ended 31st March,	
	2000		2001		2002		2003	
	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%
Geographical sales								
Export sales	858	55.0	1,269	54.0	2,221	50.7	685	54.6
Hong Kong	409	26.2	585	24.9	1,190	27.2	291	23.2
East Asia (<i>Note 1</i>)	332	21.3	504	21.4	776	17.7	275	21.9
Others (<i>Note 2</i>)	117	7.5	180	7.7	255	5.8	119	9.5
Domestic sales	<u>701</u>	<u>45.0</u>	<u>1,085</u>	<u>46.0</u>	<u>2,160</u>	<u>49.3</u>	<u>570</u>	<u>45.4</u>
Total	<u>1,559</u>	<u>100.0</u>	<u>2,354</u>	<u>100.0</u>	<u>4,381</u>	<u>100.0</u>	<u>1,255</u>	<u>100.0</u>

Notes:

1. Principally comprising Japan and South Korea
2. Principally comprising Taiwan, Thailand, the U.S. and certain European countries

Domestically, the Group has an extensive coverage across more than 20 provinces and municipalities directly under the central government in the PRC, many of which are located in Southern China and Eastern China where many large-scale textile and garment companies locate.

BUSINESS

Internationally, the Group's overseas market extends to more than 20 countries and regions, such as Hong Kong, Japan, South Korea and Southeast Asian countries (without quota restrictions) and Europe and the U.S. (to a much lesser extent because of quota restrictions). The Group has established close relationship with some of its overseas customers including market leaders (such as Fountain Set Group and Texwinca Group) and well-known traders (such as Itochu, Nichimen and Marubeni). The Group has dedicated production lines for some of its international customers (such as Texwinca Group and Itochu), thus enhancing its close customer relationships. In 2002, Itochu together with the Company and Profit Rich Company established Luteng Textile thus establishing closer ties with the Group.

As the Group has not established any overseas branch office, the Group has engaged agents to assist its sales to overseas market since 2000. In 2002, about 30% of the Group's overseas sales, representing about 15% of the Group's total sales, were effected through agents. The Directors consider that the engagement of agents has assisted the Group in broadening its customer base and is therefore beneficial to the operation of the Group's business. With the gradual liberalisation and globalisation of the textile industry, the Directors believe that the proportion of the Group's direct sales to overseas customers will increase gradually.

The Group emphasises on customer-oriented principles in its operation and is committed to establishing a proactive mechanism to satisfy customers' needs. The Group regularly invites customers to visit its production base to allow them to have a better understanding of the research capability, production process and production scope of the Group. Although the Group has engaged agents in conducting overseas sales, it is the responsibility of the Group's sales team to maintain a close relationship with customers. In the event of receiving significant feedback or complaint from the customers in relation to product quality or design, the Group's sales staff will immediately send the relevant information to the Production Planning Head Office of the Company for immediate follow-up action.

The Group's sales team is also responsible for co-ordinating the Group's marketing activities, which include participation in local and overseas exhibitions, trade fairs such as the Guangzhou Commodity Fairs, promotion of the Group's products through the internet and sales call.

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the five largest customers of the Group represented 46%, 27%, 27% and 17% of the Group's turnover respectively. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the largest customer of the Group represented 26%, 8%, 10% and 5% of the Group's turnover respectively.

For each of the three years ended 31st December, 2002, Holding Company was the largest customer of the Group while Weiqiao Dyeing, a 60% owned subsidiary of Holding Company, was the fourth largest customer of the Group. As at the Latest Practicable Date,

BUSINESS

Mr. Zhang (a non-executive Director) was the chairman and a shareholder of Holding Company and the chairman of Weiqiao Dyeing, and Zhang Hongxia (an executive Director and the general manager of the Company) was a non-executive director of Holding Company. Save for the above, as at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates or any shareholder (who to the knowledge of the Directors owned more than 5% of the issued capital of the Company) had any interest in any of these customers of the Group.

During the years ended 31st December, 2001 and 2002 and the three-month period ended 31st March, 2003, the Group received bills receivable aggregating about RMB176 million, RMB1,363 million and RMB76 million, respectively, from Holding Company as the partial settlement of the purchase from the Group. All of the bills receivable received were discounted with banks and the cash received upon discounting the bills receivable were then included as part of the cash and bank balances of the Group.

Should the “Discontinuing transactions” as described under the section headed “Related party transactions” of the accountants’ report set out in appendix I to this prospectus be excluded, the Group’s five largest customers would have accounted for about 30%, 22%, 21% and 17% of the Group’s turnover for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively; while the Group’s largest customer would have accounted for about 9%, 8%, 5% and 5% of the Group’s turnover for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively. Weiqiao Dyeing would still have been the third (for the year 2000 and 2001) and the fifth (for the year 2002) largest customer of the Group.

Product delivery

In general, the Group delivers its products to its overseas customers by way of cargo shipment. The Group’s products are mainly shipped via Qingdao Port except for delivery to South Korea which are shipped via Weihai Port, the nearest port in the PRC to South Korea.

As regards domestic sales, the Group’s products are delivered by trucks to its customers across the PRC. To facilitate such deliveries, the Group maintains its own fleet of trucks and also engages the services of delivery companies.

On average, delivery of goods to the Group’s overseas customers and domestic customers would usually take about one week and three days respectively.

Export and quotas

Before the lifting of export control on cotton textile products in the PRC in 2003, a PRC enterprise had to obtain an export licence and related quotas from the relevant PRC authorities before it was allowed to conduct any export sales of grey fabric to countries such as Japan and Korea. The Company and Weihai Weiqiao obtained the relevant licences in

BUSINESS

January 2000 and August 2001 respectively. Commencing from 1st January, 2003, export quota was no longer required in the PRC for export of cotton textile products. However, the Group still has to apply for quotas for exports to countries where import quota requirements are in place such as the United States, Canada, Turkey and other European countries.

During the Track Record Period, the Group was not able to obtain all of the quotas it applied for which mainly related to its exports to countries with import quota restriction. For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, the percentage of the Group's sales to countries with import quota restriction to the total sales was less than 0.5%. With the removal of such import quota requirements by those WTO members by 31st December, 2004 (albeit that other WTO members may initiate negotiations in respect of export value of textiles and clothing by the PRC until 31st December, 2008, and may impose restrictions of not exceeding 7.5% on the growth of exports of textiles and clothing from the PRC), the Directors believe that the Group is well positioned to further expand into the European and U.S. markets by capitalising on the Group's product quality.

Pricing and receivables

The prices of the Group's products are determined by the senior management of the Company after taking into account, among others, market competition, cost of sales, product characteristics and consumer behaviours.

The Group's sales are denominated and settled in either Renminbi for domestic sales or US Dollars for overseas sales. Set out below are the percentage of the denomination of the major currencies of the Group's sales during the Track Record Period:

	For the year ended 31st December,			For the three-month period ended 31st March,
	2000	2001	2002	2003
	%	%	%	%
US\$	55.0	54.0	50.7	54.6
RMB	45.0	46.0	49.3	45.4

Generally, the Group will request overseas customers to settle by letters of credit payable on sight or usance (usually between 30 days and 45 days), while domestic customers are generally required to make payment on delivery. For each of the three years ended 31st December 2002 and the three months ended 31st March 2003, the trade receivables turnover days (balance of accounts receivable as at the end of each year or period over average daily sales made in the respective year or period) were 24 days, 39 days, 21 days and 25 days respectively. The increase in trade receivables turnover days in 2001

BUSINESS

was mainly attributable to the Group's extension of credit period for trade receivables to its customers to deal with the adverse conditions in international and domestic cotton textile market in 2001. As the international and domestic cotton textile market improved in 2002, the Group shortened the credit period. The increase in trade receivable turnover of the Group to 25 days in the first quarter of 2003 was due to the surge in the export sales of the Group which usually has a longer credit period than that for domestic sales.

The management of the Group monitors the amount due from customers and will adjust the credit terms granted to customers where necessary. The senior management of the Group monitors the aging of accounts receivables and, if necessary, makes specific provisions on balances with recoverability problem and makes general provisions on the remaining balances according to the Group's provisioning policy. The management will make annual assessments on the recoverability of such provisions.

The Group's general provisions are made at a specific percentage on the aging of accounts receivables as follows:

Period	%
Within 3 months	3
Over 3 to 6 months	5
Over 6 months to 1 year	20
Over 1 year to 2 years	50
Over 2 years	100

During the Track Record Period, the Group had not incurred any bad debt expense. However, as a matter of provisioning policy, the Group had made general provisions amounting to about RMB6,397,000, RMB4,120,000, RMB4,182,000 and nil for each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 respectively. No specific provision was made during the same period.

RESEARCH AND DEVELOPMENT

The Directors believe that modern textile manufacturers compete internationally not only in quality and cost, but also in the ability to innovate in terms of production technology and product design. In order to cope with such competition, the Group places emphasis on the improvement and enhancement of spinning and weaving technologies and development of new products, with a view to strengthening the overall innovation capability of the Group.

The Group has laboratories in each of the Production Areas. Apart from the quality control function, the laboratories are also responsible for the development of new products and analysing the effectiveness of new techniques or new equipment employed. In order to keep pace with the progress and advancement in the industry and to improve the quality

BUSINESS

and variety of the Group's products, the Company has established a technical advisory team advising the Group on matters relating to compliance with customers' special specifications, adoption of new production technologies and development of new products.

1. Technologies enhancement

Based on domestic and overseas experiences and implementation results reported in journals, the Group actively promotes the use of new textile production technologies (including new techniques and new equipment and machinery) to improve the conventional processes. For instance, the Group has introduced elastic spinning technique, slubbing and siro-spinning technique for the production of higher value added products such as spandex core-spun yarn and slub yarn. Luteng Textile was incorporated with a view to improving the quality and the production techniques of spandex core-spun yarn.

The Group has also increased the use of more advanced machineries and equipment such as blowroom machines and auto-winding machines in yarn spinning and shuttleless looms in fabric weaving, to improve the level of automation and hence the cost effectiveness of production.

2. Development of new products

The Group keeps abreast of market and product development trends by attending trade fairs and conferences, holding constant discussions with customers and reviewing industry journals. With the introduction of new technologies and materials of a wider variety, the Group develops products to meet customers' demand. For instance, the Group has developed a new series of denim and elastic poplin using spandex core-spun yarn. Other materials such as modal, formotex, tencel, lyocell and a polyester blended fabric (T/R) were used in developing new products.

In 2002, Industrial Park received government grants totalling RMB13,390,000 in cash from the Finance Bureau of Binzhou City as financial assistance for certain projects relating to the development of high quality and high value-added textile products. The amount received was reflected and recorded as "other payables" in the financial statements of Industrial Park. Upon completion of the relevant projects for which such government grants were intended and after obtaining the relevant completion approval issued by the Finance Bureau of Binzhou City, the amount will be released to the consolidated income statements of the Group over the expected useful life of such relevant assets by equal annual instalments in accordance with the accounting principles generally accepted in Hong Kong. As at 31st March, 2003, the relevant projects have not yet commenced.

BUSINESS

COMPETITION

The PRC has traditionally been a large textile producing country. The Group faces severe competition in the domestic market. However, as the largest cotton textile manufacturer in the PRC in terms of turnover in 2002, the Group's present operating scale is still much larger than most of its domestic competitors which constitutes a major advantage over such competitors. Nevertheless, the number of domestic competitors is growing and the Group is currently facing additional competition from some emerging new manufacturers which are developing rapidly in Zhejiang and Jiangsu Province in the PRC.

As for overseas markets, the Group's major competitors are manufacturers of foreign countries such as India and Pakistan which, on average, have an even lower labour costs in cotton textile industry than that in the PRC. Compared with these overseas competitors, however, the Directors believe that the quality of the Group's products is more guaranteed thus enabling the Group to maintain and expand its customers' base.

ENVIRONMENTAL PROTECTION

In order to ensure compliance with the relevant environmental laws and regulations, the Group has implemented a set of internal control procedures. Such procedures involve, among others, improving staff awareness, setting standards for controlling and monitoring pollution levels, providing guidelines for the handling of pollutants and establishing preventive as well as corrective measures.

As waste water is discharged during the production of denim, the Group has built a waste water treatment station which is shared among the Production Areas (other than Industrial Park and Weihai Weiqiao). 鄒平縣環境保護局 (Environmental Protection Bureau of Zouping County) has in 2003 granted the relevant permit for the discharge of pollutants within a specified limit and has subsequently issued a confirmation confirming that the amount of pollutants discharged was in accordance with the relevant environmental laws and regulations.

Neither Industrial Park nor Weihai Weiqiao produces denim and waste water treatment is therefore not considered necessary. Each of the relevant local Environmental Protection Bureau has issued a confirmation in 2003 confirming that the relevant environmental laws and regulations have been complied with.

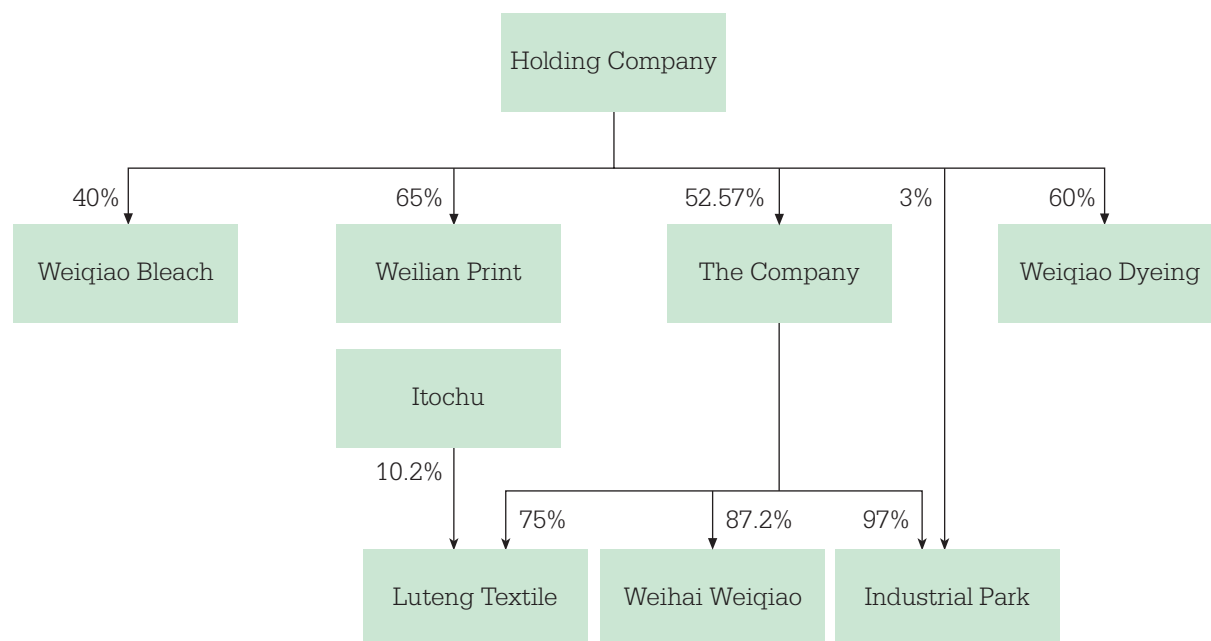
Given the aforesaid, the Directors believed that the Group has not been in violation of any environmental laws, and the operations of the Group have been in compliance with the relevant environmental regulations of the PRC during the Track Record Period.

BUSINESS

CONNECTED TRANSACTIONS

Relationship between the Company and the Connected Persons

Set out below is the simplified corporate structure amongst relevant members of the Group and the Connected Persons (as defined below) immediately after completion of the Share Offer, but before the exercise of the Over-allotment Option:



Connected Persons:

1. Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules.
2. Weiqiao Bleach is 40% owned by Holding Company. Weilian Print is a 65% owned subsidiary of Holding Company. Weiqiao Dyeing is a 60% owned subsidiary of Holding Company. As each of Weiqiao Bleach, Weilian Print and Weiqiao Dyeing is an associate of a promoter/substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.
3. Itochu is the holder of 10.2% interests in Luteng Textile, a 75% owned subsidiary of the Company. As it is a substantial shareholder of a subsidiary of the Company, it constitutes a connected person of the Company under the Listing Rules.

BUSINESS

4. Industrial Park is a company owned as to 97% by the Company and as to 3% by Holding Company. Weihai Weiqiao is a company owned as to 87.2% by the Company and as to 12.8% by WCAI. Industrial Park and Weihai Weiqiao, being non-wholly owned subsidiaries of the Company, constitute connected persons under the Listing Rules.

The continuation or the entering into of any transaction between any of the connected persons set out above (“Connected Persons”) and the Company or any of its subsidiaries subsequent to the Listing will constitute a connected transaction of the Company under the Listing Rules.

A. **Non-Exempt Connected Transactions**

Set out below are the terms of the connected transactions which are subject to the reporting, announcement and shareholders’ approval requirements set out in Chapter 14 of the Listing Rules (“Non-Exempt Connected Transactions”).

1. **Supply of cotton by Holding Company to the Group**

Transaction nature:

The Company and Holding Company entered into a supply of products, raw materials and processing services agreement on 25th August, 2003 pursuant to which Holding Company has agreed, in addition to the transactions described in (A2(a)) and (A4), to supply cotton (including lint cotton and tailings) to the Group.

The agreement has a term of three years commencing from the date of the agreement. Holding Company shall cease to supply cotton to the Group after the Company has obtained a cotton purchase and processing permit which is currently expected to be around the fourth quarter of 2003.

Connected person:

Holding Company

Pricing basis:

The prices of cotton supplied by Holding Company to the Group are determined by reference to the prices at which comparable types of cotton are supplied by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

The Directors have confirmed that the pricing basis agreed between the Company and Holding Company for the supply of cotton is fair and reasonable, was negotiated on an arm’s length basis and constitutes a normal commercial term.

BUSINESS

Reason for the transaction:

Holding Company is the holder of a permit to purchase and process raw cotton from peasants in the PRC. During the Track Record Period and as at the Latest Practicable Date, some of the cotton used by the Group for the production of cotton textile products had been supplied by Holding Company.

The Company expects to obtain a cotton purchase and processing permit around the fourth quarter of 2003. Before the Company obtains such permit, the Group partially relies on Holding Company for the supply of cotton (including lint cotton and tailings) for the production of cotton textile products. Immediately after the Company has obtained such permit, Holding Company will transfer its cotton processing facilities at nil consideration to the Company pursuant to an equipment transfer agreement (please refer to paragraph (B3) in the section headed “Exempt Connected Transactions” in this prospectus) and the Group will discontinue the purchase of cotton from Holding Company. As a transitional arrangement, the Company has decided to continue to purchase cotton from Holding Company, which has always supplied the Group with cotton of good quality at reasonable prices, until it obtains a cotton purchase and processing permit.

The Group purchases some of the cotton that it requires for the production of cotton textile products from Holding Company instead of independent third parties partly because the premises of the Company and Parent Group are located close to each other at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC. Delivery and storage costs, if any, can therefore be minimised.

2. **Supply of cotton yarn and cotton fabric**

(a) *Supply of cotton yarn and cotton fabric by the Group to Parent Group*

Transaction nature:

The Company and Holding Company entered into a supply of products, raw materials and processing services agreement on 25th August, 2003 pursuant to which the Company has agreed, in addition to the transactions described in (A1) and (A4), to supply or procure its subsidiaries to supply, cotton yarn and cotton fabric to Parent Group for the production of downstream cotton textile products.

The agreement has a term of three years commencing from the date of the agreement. Unless either party decides not to renew the agreement within 30 days before expiry of the term and so notifies the other, the agreement will be automatically renewed for another three years upon the expiry of its term.

BUSINESS

Connected person:

Holding Company

Pricing basis:

The prices of cotton yarn and cotton fabric supplied by the Group to Parent Group are determined by reference to the prices at which comparable types of cotton yarn and cotton fabric are supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC.

The Directors have confirmed that the pricing basis agreed between the Company and Holding Company for the supply of cotton yarn and cotton fabric is fair and reasonable, was negotiated on an arm's length basis and constitutes a normal commercial term.

Reason for the transaction:

Parent Group has a substantial demand for cotton yarn and cotton fabric for further processing into downstream cotton textile products for sale to independent third parties. The provision of cotton yarn and cotton fabric to Parent Group at prices no more favourable than those available to independent third parties falls within the ordinary and usual course of the Group's business.

(b) *Supply of cotton yarn and cotton fabric by the Group to Itochu*

Transaction nature:

The Group supplies cotton yarn and cotton fabric to Itochu on normal commercial terms.

Connected Person:

Itochu

Pricing basis:

The prices at which cotton yarn and cotton fabric are supplied by the Group to Itochu are determined by reference to the prices at which comparable types of cotton yarn and cotton fabric are sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business.

BUSINESS

The Directors have confirmed that the pricing basis for the provision of cotton yarn and cotton fabric is fair and reasonable, was negotiated on an arm's length basis and constitutes a normal commercial term.

Reason for the transaction:

Itochu was Parent Group's and now is one of the Group's key export customers in Japan. In order to enhance their business relationship, Holding Company, Profit Rich Company and Itochu established a sino-foreign equity joint venture, Luteng Textile, in September 2002 for the production and sale of mainly spandex core-spun yarn. Prior to the agreed time when the parties were to make their respective contributions in accordance with the joint venture contract, Holding Company transferred to the Company all of its rights and liabilities under the contract. After the parties made their respective capital contribution to Luteng Textile, Luteng Textile was and is still owned as to 75% by the Company, 10.2% by Itochu and 14.8% by Profit Rich Company. Since 2000, Itochu has been purchasing cotton yarn and cotton fabric from the Group. It would be to the Group's advantage to maintain a close business relationship with Itochu because Itochu is one of the key export customers of the Group and is in a position to assist the Group in developing its market in Japan.

3. **Supply of electricity and steam by Holding Company to the Group**

Transaction nature:

The Company and Holding Company entered into a supply of electricity and steam agreement on 25th August, 2003 pursuant to which Holding Company has agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the agreement. During the term of the agreement, either party may terminate the agreement from time to time by providing 30 days' written notice of termination in relation to any one or both categories of energy. In the event that Holding Company proposes to terminate the provision of either category of energy, and the Company is unable to find an alternative energy provider at terms comparable to those available from Holding Company (which fact shall be communicated by the Company to Holding Company from time to time), then unless permitted by the Company, Holding Company must continue to provide such energy in accordance with the terms of the agreement. In respect of any energy already contracted to be provided, termination may not take place until after such energy has been provided pursuant to the agreement.

Unless either party decides not to renew the agreement within 30 days before expiry of the term and so notifies the other, the agreement will be automatically renewed for another 10 years upon the expiry of its term.

Of the three coal-fired power plants of Holding Company which supply electricity and steam to the Group, two are located in Zouping County and one in Binzhou City.

BUSINESS

The Group has contingency plans for the supply of electricity and steam, respectively, in the event that Holding Company fails to deliver a stable supply of such energies. Details of such contingency plans are set out in the paragraph headed “Consumption of electricity and steam” in this prospectus.

Connected person:

Holding Company

Pricing basis:

The price at which electricity is provided to the Group by Holding Company shall be the lower of either RMB0.35 per kWh (being the unit price chargeable by Holding Company to the Group since 2002) or the market price. The price at which steam is provided to the Group by Holding Company shall be the lower of either RMB60 per ton (being the unit price chargeable by Holding Company to the Group since 2000) or the market price. If any applicable mandatory price for the supply of electricity and/or steam is prescribed by the PRC government, it would be adopted instead.

The Directors have confirmed that the pricing bases agreed between the Company and Holding Company for the supply of electricity and steam are fair and reasonable, were negotiated on an arm’s length basis and constitute normal commercial terms.

Reason for the transaction:

The Group relies on three of Holding Company’s coal-fired power plants for the supply of electricity and steam for its operations. At present, it is not in the interest of the Group to own and manage any power plant because the provision of electricity and steam is not the principal business of the Group. In resting assured that it would obtain a stable supply of energy for its operations at favourable capped rates that would either be lower than or at market rates from Holding Company, the Group would be able to focus its resources on its principal business of cotton spinning and fabric weaving.

4. **Provision of processing services by Parent Group to the Group**

Transaction nature:

The Company and Holding Company entered into a supply of products, raw materials and processing services agreement on 25th August, 2003 pursuant to which Holding Company has agreed, in addition to the transactions described in (A1) and (A2(a)), to provide, or procure its subsidiaries and/or associates (including but not limited to Weilian Print and Weiqiao Bleach) to provide, cotton yarn and grey fabric downstream processing services (e.g. dyeing, bleaching and printing) to the Group for

BUSINESS

a term of three years commencing from the date of the agreement. Unless either party decides not to renew the agreement within 30 days before the expiry of its term and so notifies the other, the agreement will be automatically renewed for another three years upon the expiry of its term.

Connected person:

Holding Company

Pricing basis:

The fees at which processing services are provided by Parent Group to the Group are determined by reference to the fees at which comparable types of processing services are provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

The Directors have confirmed that the pricing basis agreed between the Company and Holding Company for the provision of processing services is fair and reasonable, was negotiated on an arm's length basis and constitutes a normal commercial term.

Reason for the transaction:

The Group does not have any dyeing, bleaching or printing facilities for processing the cotton yarn and grey fabric manufactured by it. In order to accommodate the side demand from some of its customers, the Group relies on Parent Group for the provision of downstream processing services (including dyeing, printing and bleaching services) of consistently high quality. The Group does not procure processing services from independent third parties partly because the premises of the Company and Parent Group are located close to each other at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC. Delivery costs, if any, are therefore negligible. Furthermore, Parent Group has always provided the Group with good quality downstream processing services at reasonable fees.

Applicable Listing Rule:

The Directors expect the fees chargeable by Parent Group to the Group each year in the future to fall below the threshold, being the higher of either HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the corresponding year-end, as stipulated under Rule 14.25(1) of the Listing Rules. Therefore, the provision of processing services by Parent Group to the Group is not subject to the shareholders' approval requirement but is subject to the disclosure requirements applicable to connected transactions under Chapter 14 of the Listing Rules.

BUSINESS

5. Lease of land use rights and building right by Holding Company to the Company

Transaction nature:

The Company and Holding Company entered into five leasing agreements pursuant to which, Holding Company has agreed to lease to the Company land use rights and building right in respect of land and building respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

Date of Agreement	Commencement Date	Expiry Date	Term (years)	Location	Total Land/ Building Area (square metre)	Annual Rent (RMB)
<i>Land use right</i>						
27th December, 2000	27th December, 2000	27th December, 2020	20	First Production Area	75,810.94	454,900
10th May, 2001	10th May, 2001	10th May, 2021	20	First Production Area	144,667.39	868,000
30th September, 2002	30th September, 2002	30th September, 2022	20	Second Production Area	148,114.07	888,700
14th May, 2003	14th May, 2003	14th May, 2023	20	Third Production Area	250,510.11	1,503,000
<i>Building right</i>						
10th May, 2000	10th May, 2000	10th May, 2006	6	(Note)	3,000	600,000

Note: The building right is in respect of a room in a 5-storey building leased by Holding Company to the Company for use as its office. The 5-storey building is located at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC and is outside of the Production Areas.

Connected person:

Holding Company

Pricing basis:

The rent chargeable by Holding Company to the Company is determined by reference to the market rent, namely the rent payable for leasing land use rights/building right in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their businesses in Zouping County, Shandong Province, the PRC.

BUSINESS

Chesterton Petty Limited, an independent valuer, has reviewed the above leasing agreements and has confirmed that the rental payable by the Company to Holding Company in respect of the land use rights/building right leased is fair and reasonable to the Company.

Reason for the transaction:

To enable the Company to continue to carry out its operations at its premises in the First Production Area, the Second Production Area, the Third Production Area and a 5-storey building located at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, which is owned by Holding Company.

Applicable Listing Rule:

The Directors expect the aggregate annual rent chargeable by Holding Company to the Company to fall below the threshold, being the higher of either HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the corresponding year-end, as stipulated under Rule 14.25(1) of the Listing Rules. Therefore, the leasing of land use rights/building right by Holding Company to the Company is not subject to shareholders' approval requirement but is subject to the disclosure requirements applicable to connected transactions under Chapter 14 of the Listing Rules.

BUSINESS

Historical figures

The following is a summary of the values of the Non-Exempt Connected Transactions of the Group as described in (A1) to (A3) above for each of the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003 and their respective representation by reference to the turnover of the Group for the corresponding period:

Transaction nature					As a percentage of the Group's turnover <i>(Note 1)</i>			
	Year ended 31st December,			Three-month period ended 31st March,	Year ended 31st December,			Three-month period ended 31st March,
	2000	2001	2002	2003	2000	2001	2002	2003
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(%)	(%)	(%)	(%)
A1. Supply of cotton by Holding Company to the Group	178	88	224	116	11	4	5	9
A2. Supply of cotton yarn and cotton fabric								
(a) by the Group to Parent Group	70	91	119	38	4	4	3	3
(b) by the Group to Itochu	40	88	139	53	3	4	3	4
A3. Supply of electricity and steam by Holding Company to the Group	60	142	146	44	4	6	3	4

Note:

- The Group's turnover for each of the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003 is about RMB1,559,284,000, RMB2,353,637,000, RMB4,380,923,000 and RMB1,255,068,000, respectively.

BUSINESS

B. **Exempt Connected Transactions**

Details of the connected transactions of the Company which are exempt from the reporting, announcement and shareholders' approval requirements pursuant to Rule 14.24 of the Listing Rules ("Exempt Connected Transactions") are set out below:

1. **Supply of raw materials by Itochu to the Company**

Transaction nature:

Itochu supplies raw materials to the Company for the production of yarn, grey fabric and denim products on normal commercial terms.

Connected Person:

Itochu

Pricing basis:

The prices at which raw materials (including spandex and other composite fibres) supplied by Itochu to the Company for the production of cotton textile products are determined by reference to the prices at which comparable types of raw materials are supplied by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

The Directors have confirmed that the pricing basis for the supply of the above raw materials is fair and reasonable, was negotiated on an arm's length basis and constitutes a normal commercial term.

Reason for the transaction:

It would be to the Company's advantage to maintain a close relationship with Itochu because Itochu is one of the key export customers of the Group and is in a position to assist the Group in developing its market in Japan.

Reason for the exemption:

The consideration paid by the Company to Itochu for each of the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003 was about nil, RMB0.2 million, RMB0.9 million and nil, respectively.

BUSINESS

The Directors expect the consideration payable by the Company to Itochu for each year to fall below the de minimis threshold, being the higher of either HK\$1,000,000 or 0.03% of the book value of the net tangible assets of the Group as at the corresponding year-end, as stipulated under Rule 14.24(5) of the Listing Rules. Therefore, the supply of raw materials for the production of cotton textile products by Itochu to the Company is not subject to any of the disclosure and shareholders' approval requirements applicable to connected transactions under Chapter 14 of the Listing Rules.

2. **Lease of land use right by Holding Company to Luteng Textile**

Transaction nature:

Luteng Textile and Holding Company entered into a leasing agreement on 13th September, 2002 pursuant to which, Holding Company has agreed to lease to Luteng Textile land use right in respect of land with a total area of about 10,100 sq.m. located in the First Production Area at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC for a term of 20 years commencing from the date of the agreement, with a right of renewal exercisable by Luteng Textile.

Connected Person:

Holding Company

Pricing basis:

The rent chargeable by Holding Company to Luteng Textile is determined by reference to the rent payable for leasing land use rights in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their businesses in Zouping County, Shandong Province, the PRC and is expected to be about RMB60,700 per annum for each of the three financial years ending 31st December, 2005.

Chesterton Petty Limited, an independent valuer, has reviewed the above leasing agreement and has confirmed that the rent payable by Luteng Textile to Holding Company in respect of the land use right leased is fair and reasonable to Luteng Textile.

Reason for the transaction:

To enable Luteng Textile to continue to carry out its operations at its premises at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, which is owned by Holding Company.

BUSINESS

Reason for the exemption:

The Directors expect the annual rent chargeable by Holding Company to Luteng Textile to fall below the de minimis threshold, being the higher of either HK\$1,000,000 or 0.03% of the book value of the net tangible assets of the Group as at the corresponding year-end, as stipulated under Rule 14.24(5) of the Listing Rules. Therefore, the leasing of land use right by Holding Company to Luteng Textile is not subject to any of the disclosure and shareholders' approval requirements applicable to connected transactions under Chapter 14 of the Listing Rules.

3. **Transfer of equipment from Holding Company to the Company**

Transaction nature:

The Company and Holding Company entered into an equipment transfer agreement on 25th August, 2003 pursuant to which, Holding Company has agreed to transfer to the Company all rights and benefits to all of its cotton processing equipment at nil consideration immediately upon the Company's obtaining a cotton purchase and processing permit and to deliver such equipment to the Company within 30 business days thereof. It is currently expected that the Company would obtain such permit around the fourth quarter of 2003.

Connected person:

Holding Company

Reason for the transaction:

To ensure that once the Company has obtained a cotton purchase and processing permit, it would be able to commence its cotton processing business and Holding Company shall cease to carry on its cotton processing business. Such transaction would also help avoid further connected transaction between the Company and Holding Company in this regard.

Reason for the exemption:

The transfer of the cotton processing equipment will be for nil consideration. As such, the consideration payable by the Company to Holding Company for the cotton processing equipment falls below the de minimis threshold, being the higher of either HK\$1,000,000 or 0.03% of the book value of the net tangible assets of the Group, as stipulated under Rule 14.24(5) of the Listing Rules. Therefore, the transfer of cotton processing equipment from Holding Company to the Company is not subject to any of the disclosure and shareholders' approval requirements applicable to connected transactions under Chapter 14 of the Listing Rules.

BUSINESS

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the Exempt Connected Transactions:

- (i) have been entered in the ordinary and usual course of business of the Company and are fair and reasonable as far as the shareholders of the Company are concerned; and
- (ii) are 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 than terms available to or from (as appropriate) independent third parties.

C. Other Connected Transactions

1. Granting of financial assistance

- (a) *Granting of financial assistance by the Company and Holding Company to Industrial Park*

Transaction nature:

The Company and Holding Company entered into three guarantees pursuant to which the Company and Holding Company have agreed to guarantee severally, 97% and 3% respectively, of the obligations of Industrial Park in respect of certain bank loans. Each of the guarantees will continue for a period of two years commencing immediately after the day on which the relevant loan repayments are due. The relevant particulars concerning the guarantees are as follows:

Lender	Commencement date of loan agreement	Expiry date of loan agreement	Principal amount of loan <i>(RMB million)</i>	Amount guaranteed by the Company <i>(RMB million)</i>	Amount guaranteed by Holding Company <i>(RMB million)</i>
Industrial and Commercial Bank of China	31st December, 2002	30th December, 2005	30	29.1	0.9
Industrial and Commercial Bank of China	18th July, 2002	17th July, 2005	3	2.91	0.09
Industrial and Commercial Bank of China	20th December, 2002	19th December, 2005	8	7.76	0.24

BUSINESS

Note: These guarantees are given by the Company and Holding Company in respect of loans of Industrial Park that were previously guaranteed by the Company as the sole guarantor. Details of the changes made to these guarantees are set out in the section headed “Financial Information — Indebtedness” of this prospectus. The aggregate amount of the guarantees given by the Company to Industrial Park did not exceed 15% of the net tangible assets value of the Group as at 31st March, 2003.

Connected persons:

Industrial Park and Holding Company

Reason for the transaction:

The guarantees referred to above are all guarantees for bank loans advanced for working capital purposes to Industrial Park.

Applicable Listing Rule:

The guarantees given by the Company constitute the granting of financial assistance by the Company to a company (i.e., Industrial Park) in which both the Company and a connected person (i.e., Holding Company) are shareholders, upon normal commercial terms, in proportion to the Company’s equity interest in Industrial Park and on a several basis. Therefore, they are subject to the disclosure requirements under Rule 14.25(2)(b) but are not subject to the shareholders’ approval requirements under Chapter 14 of the Listing Rules.

BUSINESS

(b) *Granting of financial assistance by the Company to Weihai Weiqiao*

Transaction nature:

The Company and WCAI entered into eight guarantees pursuant to which the Company and WCAI have agreed to guarantee, 87.2% and 12.8% respectively, of the obligations of Weihai Weiqiao in respect of certain banking facilities. Each of the guarantees will continue for a period of two years commencing on the day when the relevant banking facilities are due. The principal terms of the guarantees are as follows:

Lender	Effective date of banking facilities	Expiry date of banking facilities	Principal amount of banking facilities <i>(RMB million)</i>
Agricultural Bank of China <i>(Note 1)</i>	31st July, 2002	30th July, 2005	40
Agricultural Bank of China <i>(Note 1)</i>	16th August, 2002	15th August, 2005	6
Bank of Communications <i>(Note 1)</i>	10th October, 2002	9th October, 2005	30
Agricultural Bank of China <i>(Note 2)</i>	20th November, 2002	19th November, 2005	30
Agricultural Bank of China <i>(Note 2)</i>	15th January, 2003	14th January, 2006	20
Agricultural Bank of China <i>(Note 2)</i>	25th February, 2003	24th February, 2006	30
Agricultural Bank of China <i>(Note 2)</i>	28th February, 2003	27th February, 2006	4
Shanghai Pudong Development Bank Co., Ltd. <i>(Note 2)</i>	27th June, 2003	date of full repayment of banking facilities	70

Notes:

- These guarantees are given by the Company and WCAI in respect of loans of Weihai Weiqiao that were previously guaranteed by Holding Company as the sole guarantor. Details of the changes made to these guarantees are set out in the section headed "Financial Information — Indebtedness" of this prospectus.
- These guarantees are given by the Company and WCAI in respect of loans of Weihai Weiqiao that were previously guaranteed by the Company as the sole guarantor. Details of the changes made to these guarantees are set out in the section headed "Financial Information — Indebtedness" of this prospectus.

BUSINESS

Connected person:

Weihai Weiqiao

Reason for the transaction:

The guarantees referred to above are guarantees for banking facilities advanced to Weihai Weiqiao as working capital.

Applicable Listing Rule:

The guarantees constitute the granting of financial assistance by the Company to a non-wholly owned subsidiary (i.e., Weihai Weiqiao) of the Company in which no connected person is a shareholder (excluding WCAI, which is a connected person by virtue only of its substantial shareholding in Weihai Weiqiao), upon normal commercial terms (or better). Therefore, they are subject to the reporting requirement under Rule 14.25(2)(a) but are not subject to the announcement and/or shareholders' approval requirements under Chapter 14 of the Listing Rules. Pursuant to the reporting requirement under Rule 14.25(2)(a), the Company will have to disclose details of the above guarantees in its next and successive published annual report(s) and accounts.

D. Waiver from the Stock Exchange

The Directors confirm that save as disclosed in the sections headed "Non-Exempt Connected Transactions" and "Other Connected Transactions" above, there are no connected transactions in which the Company is involved which will continue after completion of the Listing and which are non-exempt according to the Listing Rules.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the Non-Exempt Connected Transactions are:

- (i) entered in the ordinary and usual course of business of the Company;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether it is on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. (In particular, the Directors confirm that the price/rent payable by any of the members of the Group to any Connected Person (or vice versa) for the provision of services/supply of energy, goods or raw materials/leasing of land use rights or building right, under any of the above agreements is fair and reasonable).

BUSINESS

The Directors (including the independent non-executive Directors) and the Sponsor are also of the opinion that the caps set for the Non-Exempt Connected Transactions as set out in paragraph (f) below are reasonable so far as the business operation of the Company is concerned.

The Non-Exempt Connected Transactions constitute connected transactions under Chapter 14 of the Listing Rules. The Non-Exempt Connected Transactions described in (A1) to (A3) above are subject to the announcement and shareholders' approval requirements relating to connected transactions under Chapter 14 of the Listing Rules each time when they occur. The Non-Exempt Connected Transactions described in (A4) and (A5) above are subject to the announcement requirement relating to connected transactions under Chapter 14 of the Listing Rules each time when they occur. The Directors consider that strict compliance with the aforementioned shareholders' approval and/or announcement requirements for the Non-Exempt Connected Transactions would be impractical.

The Company has applied to the Stock Exchange for a waiver from strict compliance with the above shareholders' approval and/or announcement requirements set out in Chapter 14 of the Listing Rules for the Non-Exempt Connected Transactions on condition that:

- (a) each of the Non-Exempt Connected Transactions has been or is:
 - (i) entered into in the ordinary and usual course of business of the Group;
 - (ii) conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether it is on normal commercial terms, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into either in accordance with the relevant agreement governing such transactions or where there are no such agreements, on terms no less favourable than those available to or from independent third parties, as applicable;
- (b) the Company shall disclose, in its annual report and accounts for the relevant year, details of the transactions in each financial year as required by Rule 14.25(1)(A) to (D) of the Listing Rules together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (c) below;

BUSINESS

- (c) the Company's independent non-executive Directors shall review the Non-Exempt Connected Transactions annually and confirm in the Company's annual report and accounts, that such transactions have been conducted in the manner stated in paragraph (a) above and, where applicable, within the limits stated in paragraph (f) below ("Cap Amounts");
- (d) the Company's auditors shall review annually the Non-Exempt Connected Transactions and provide a letter to the Board of Directors ("Auditor's Letter") (with a copy to the Listing Division of the Stock Exchange), confirming whether each of the Non-Exempt Connected Transactions:
 - (i) has received the approval of the Board of Directors;
 - (ii) was in accordance with the pricing policies as stated in the relevant agreements, where applicable;
 - (iii) was entered into in accordance with the terms of the relevant agreements and documents governing such transactions or if there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
 - (iv) has exceeded the Cap Amounts.

Where, for whatever reason, the Company's auditors decline to accept the engagement or are unable to provide the Auditor's Letter, the executive Directors shall inform the Listing Division of the Stock Exchange as soon as practicable;

- (e) each of the Company and Holding Company has undertaken to the Stock Exchange that for so long as the H Shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant accounts and records, for the purpose of the auditors' review of the Non-Exempt Connected Transactions as referred to in paragraph (d) above; and

BUSINESS

- (f) the aggregate value of each of those Non-Exempt Connected Transactions for each financial year does not exceed the relevant Cap Amount for that financial year set out below:

Type of transaction	Proposed annual cap
A1. Supply of cotton by Holding Company to the Group	5% of the turnover of the Group for each of the two financial years ending on 31st December, 2004
A2. Supply of cotton yarn and cotton fabric (a) by the Group to Parent Group	8% of the turnover of the Group for each of the three financial years ending on 31st December, 2005
(b) by the Group to Itochu	5% of the turnover of the Group for each of the three financial years ending on 31st December, 2005
A3. Supply of electricity and steam by Holding Company to the Group	5% of the turnover of the Group for each of the three financial years ending on 31st December, 2005
A4. Provision of processing services by Parent Group to the Group	the higher of either HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the corresponding year-end
A5. Lease of land use rights and building right by Holding Company to the Company	the higher of either HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at the corresponding year-end

BUSINESS

The Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange if:

- (a) any of the terms of the Non-Exempt Connected Transactions is altered (unless as provided for under the terms of the relevant agreement or arrangement) or if the Company or any of its subsidiaries enters into any new transactions or agreements with any connected persons (within the meaning of the Listing Rules) in the future;
- (b) any Non-Exempt Connected Transaction continues after the expiry of the relevant waiver period (i.e., the two financial years ending on 31st December, 2004 as to the Non-Exempt Connected Transaction described in (A1) and the three financial years ending on 31st December, 2005 as to the Non-Exempt Connected Transactions described in (A2) and (A3)); and/or
- (c) any of the Cap Amount(s) is/are exceeded.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable at the date of the waiver granted by the Stock Exchange on transactions of the kind to which the transactions belong including, but not limited to, a requirement that such transactions be made conditional on approval by the independent shareholders of the Company, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable time.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Zhang Bo

Mr. Zhang Bo, aged 34, is the chairman of the Company. He graduated from Shandong Broadcast and Television University (山東廣播電視大學) majoring in financial accounting and has a bachelor degree in economics. He is responsible for overseeing the Group's general operation and determining the business strategies for the Group. He has more than 10 years of management experience. He joined the Company in 1999. His appointment as a Director was approved at the Company's inaugural meeting on 29th November, 1999. He previously worked in Shandong Agriculture Material Company Binzhou branch (山東省農資公司濱州分公司), Binzhou Power Enterprise Holding Limited (濱州電力實業總公司) and Binzhou Dongmeiren Accessories Co., Ltd. (濱州東美人飾品有限公司). He had also been the head of Binzhou Tianbo Network Research Institute (濱州天博網絡研究所), director and deputy general manager of Holding Company, general manager of the Company and chairman of Binzhou Weiqiao. He is currently also the director of Weihai Weiqiao (from 25th July, 2001) as well as the chairman and general manager of Industrial Park (from 26th November, 2001). He is now a deputy to Shandong Province People's Congress. Mr. Zhang is his father.

Zhang Hongxia

Ms. Zhang Hongxia, aged 32, is the general manager of the Company. She graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. She is a qualified political administrator. She is responsible for the management of the Group's production, operation and the marketing of the Group's products. She joined the Company in 1999. Her appointment as a Director was approved at the Company's inaugural meeting on 29th November, 1999. She has over 12 years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as deputy head and head of the technical division as well as director of the production technical department. She had also been the deputy general manager and general manager of Holding Company, director of Binzhou Weiqiao, chairman of Weilian Print and director and general manager of Weiqiao Bleach. She is currently also a non-executive director of Holding Company (from 2nd May, 2001 onward and as a director from 14th April, 1998 to 1st May, 2001), a director of Industrial Park (from 26th November, 2001) as well as the chairman and general manager of Luteng Textile (from 12th September, 2002). Mr. Zhang is her father.

Qi Xingli

Mr. Qi Xingli, aged 39, is the deputy general manager and financial controller of the Company. He graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He oversees the Group's finance and accounting functions. He joined the Company in 1999. His appointment as a Director was approved at the Company's inaugural meeting on 29th November, 1999. He has over 18 years of experience in the cotton textile industry. He previously worked at Zouping County

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as deputy head of the accounting department. He had also been deputy director and director of the financial division, deputy general manager and director of Holding Company as well as general manager of the Company. He is currently also the supervisor of Weihai Weiqiao (from 25th July, 2001) as well as the director of Industrial Park (from 26th November, 2001).

Zhao Suwen

Ms. Zhao Suwen, aged 29, is also the company secretary of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a diploma in business administration. She is a qualified economist. She oversees the Group's finance and accounting functions together with Mr. Qi Xingli and is also responsible for board secretarial duties. She joined the Company in 1999. Her appointment as a Director was approved at the Company's extraordinary general meeting on 28th October, 2002. She has over eight years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as an accountant for about five years and as a finance manager of the Company.

NON EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang, aged 56, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. His appointment as a Director was approved at the Company's inaugural meeting on 29th November, 1999. He previously held the positions of workshop supervisor, head of the production division, deputy head and head of No. 5 Oil and Cotton Factory, party secretary and head of Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠), the general manager of Holding Company as well as the chairman of the Company. He is the chairman of Weiqiao Dyeing (from 27th July, 1994), the party secretary of ZCSU (from 8th March, 1998), the chairman of Holding Company (from 14th April, 1998), the chairman of Weihai Weiqiao (from 25th July, 2001), the director of Industrial Park (from 26th November, 2001), director of Weiqiao Bleach (from 28th June, 2003), chairman of Weilian Print (from 29th June, 2003) as well as the chairman of Binzhou Weiqiao (from 2nd June, 2003). He is also the chairman of Zouping County Daixi Shanzhuang Co. Ltd. (鄒平縣黛溪山莊有限公司) (from 5th November, 2002) and a deputy to the National People's Congress. He is the father of Zhang Bo and Zhang Hongxia.

Wang Zhaoting

Mr. Wang Zhaoting, aged 38, graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He joined the Company in 2002. His appointment as a Director was approved at the Company's extraordinary general meeting on 28th October, 2002. He previously worked at No. 5 Oil and

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Cotton Factory and was engaged in the procurement and management of cotton. He had been deputy head of the business division at No. 5 Oil and Cotton Factory as well as deputy head of the cotton procurement division of Holding Company. He is currently also head of the cotton procurement division of Holding Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin

Mr. Wang Naixin, aged 51, graduated from Qufu Teachers College (曲阜師範學院) and obtained a diploma in politics. He is qualified as a professor. Since 1993, he has been teaching and researching on several areas, such as corporate management, sales and marketing as well as training in the textile industry. He is currently the party secretary in Binzhou Teacher's College (濱州師範專科學校) (from 8th February, 2001). His appointment as an independent non-executive Director was approved in the Company's extraordinary general meeting on 12th February, 2003, with the term of his appointment commencing on 17th March, 2003.

Xu Wenying

Mr. Xu Wenying, aged 51, graduated from Tianjin Institute of Light Industry (天津輕工業學院) and obtained a diploma in light and chemical industry machinery. He is a qualified professor level senior engineer. He has been the engineer, deputy workshop director, technical section chief, deputy factory director and chief engineer in Huhehaote Inner Mongolia Chemical Fibre Factory (呼和浩特內蒙古化學纖維廠), deputy section chief of the technical transformation section of the planning department of the Ministry of Textile Industry (紡織工業部) (subsequently renamed China General Chamber of Textile (中國紡織總會)), and deputy secretary general of China Textile Industry Association (中國紡織工業協會). He is currently the deputy director of the industry department of China National Textile Industry Council (中國紡織工業協會), chairman of China Cotton Textile Association (中國棉紡織行業協會), chairman of China Yarn Dyed Weaving Association (中國色織行業協會), director of the Textile Products Technological Improvement Consultation Services Centre (紡織企業技術進步諮詢服務中心) and independent director of Black Peony (Group) Company Limited (黑牡丹(集團)股份有限公司). His appointment as an independent non-executive Director was approved in the Company's general meeting on 27th June, 2003.

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 48, graduated from the Waterloo University in Canada and obtained a Bachelor degree in mathematics. He has been the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), executive director of HSBC Asset Management Ltd. (匯豐投資管理有限公司), member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), member of the Consumers Litigation Fund Executive Committee (消費者訴訟基金執行委員會), President of the Rotary Club of Tsim Sha Tsui East

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(國際扶輪社香港尖沙咀東), director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), Board member of Hong Kong Ocean Park (香港海洋公園董事局), chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會). He is currently also the director (from 15th June, 1998), general manager (from 15th June, 1998) and chief investment officer of Dao Heng Fund Management Co., Ltd. (道亨基金管理有限公司), chairman of China Sub-Committee of the Hong Kong Investment Funds Association (香港投資基金公會中國事務委員會), member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會). His appointment as an independent non-executive Director was approved in the Company's extraordinary general meeting on 12th February, 2003, with the term of his appointment commencing on 17th March, 2003.

SUPERVISORS

Liu Mingping

Mr. Liu Mingping, aged 36, graduated from Binzhou Local Vocational School (濱州地區供銷職工中專學校) and obtained a diploma in corporate management. He had been the workshop supervisor of No. 5 Oil and Cotton Factory, the factory head of the No. 3 Spinning Factory of Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠三紡), the deputy general manager of Binzhou Weiqiao, the head of the equipment division and the head of the corporate management department of Holding Company. He is currently the inspector of the corporate planning division of the Company. His appointment as a Supervisor was approved at the Company's extraordinary general meeting on 28th October, 2002.

Lu Tianfu (*Independent Supervisor*)

Mr. Lu Tianfu, aged 68, graduated from Shanghai Dynamic Machinery Special School (上海動力機械專科學校) specialising in diesel engine. He is a qualified senior engineer. He has been a technician in Jinan Diesel Engine Factory (濟南柴油機廠), a supervisor of Educational Research Room of Shandong Supply and Marketing Cooperation School (山東供銷合作學校教研室), a technician, a engineer, a senior engineer, a department head, a manager and a deputy supervisor of Shandong Binzhou Supply and Marketing Cooperative (山東省濱州地區供銷合作社), committee member and deputy chief of Shandong Binzhou Local Intermediate Engineer Technician Assessment Committee (山東省濱州地區中級工程技術職稱評委會) as well as consultant to general manager of Shandong Bohai Oil & Grease Industry Co. (山東渤海油脂工業公司). His appointment as an independent Supervisor was approved in the Company's extraordinary general meeting on 12th February, 2003, with the term of his appointment commencing on 17th March, 2003. He does not currently hold any other position in the Group.

Wang Wei (*Independent Supervisor*)

Ms. Wang Wei, aged 62, graduated from Qingdao Weaving School (青島紡織專科學校) obtained a diploma specialising in cotton spinning. She is a qualified senior engineer. She

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

had been the workshop supervisor at Xinjiang Urumqi “July 1” First Cotton Weaving Plant (新疆烏魯木齊市 “七一”第一棉紡織廠), workshop supervisor and engineer of Shandong Lingyi Cotton Weaving Factory (山東省臨沂棉紡織廠), engineer of Shandong Weaving Industrial Office Education Division (山東省紡織工業廳教育處), manager of Shandong Weaving Industrial Office Cotton Textile Dyeing and Printing Co. (山東省紡織工業廳棉紡織印染公司), supervisor of the coordinating office of the Shandong Weaving Industrial Office (山東省紡織工業廳協作辦), manager and senior engineer of Shandong Weaving Industrial Office Economy and Technology Development Co. (山東省紡織工業廳經濟技術開發公司) as well as general manager and senior engineer of Shandong Weaving Industrial Office Weaving Industry Group Co. (山東省紡織工業廳紡織實業總公司) and head and chief engineer of the production technical division of Shandong Weaving Industrial Office (山東省紡織工業廳生產技術處). Her appointment as an independent Supervisor was approved at the Company’s extraordinary general meeting on 12th February, 2003, with the term of her appointment commencing on 17th March, 2003, she does not currently hold any other position in the Group.

SENIOR MANAGEMENT

Liu Shubin (deputy general manager)

Mr. Liu Shubin, aged 32, graduated from the Party School of the Shandong Party Committee of the Central Party (中共山東省委黨校) in 1999. He had been the secretary and the head of the administration department of Holding Company and the director and the secretary to the board of directors of the Company. He is currently the deputy general manager of the Company. He has over 11 years of experience in the cotton textile industry. He was appointed as a deputy general manager of the Company on 19th January, 2000.

MANAGEMENT PRESENCE IN HONG KONG REQUIREMENT

Pursuant to Rules 8.12 and 19A.17 of the Listing Rules, the Company must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. The Company’s management office and production facilities are located in the PRC. It does not and in the foreseeable future will not have any management presence in Hong Kong. Currently, substantially all of its Directors reside in the PRC.

Accordingly, the Company has applied to the Stock Exchange for a waiver from compliance with the requirements under Rules 8.12 and 19A.17 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company will ensure that internal arrangements are put in place.

QUALIFICATION OF COMPANY SECRETARY

Pursuant to Rule 19A.18 of the Listing Rules, the secretary of a PRC issuer need not be ordinarily resident in Hong Kong provided that he or she can meet the requirements of Rule 8.17 of the Listing Rules. The company secretary of the Company, Ms. Zhao Suwen, who is also an executive Director, does not and is not expected in the foreseeable future to, reside in Hong Kong.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

As Ms. Zhao cannot solely fulfil the requirements as stipulated under Rules 8.17 and 19A.18 of the Listing Rules, the Company has appointed Coudert Brothers, the Company's legal advisers on Hong Kong law, to assist Ms. Zhao so as to enable her to acquire the relevant experience (required under Rule 8.17(3) of the Listing Rules) to discharge the functions of a company secretary. Coudert Brothers has offices in Hong Kong, Beijing and Shanghai, therefore, from a geographical perspective, the rendering of assistance by it to Ms. Zhao would not in any way be hindered. Coudert Brothers is engaged by the Company in the above capacity for a minimum period of three years commencing from the date of Listing. During its engagement period, Coudert Brothers will ensure that at all times, at least one of its duly qualified Hong Kong solicitors, whose qualifications fulfil the requirement of Rule 8.17(2) of the Listing Rules, will be available to provide the assistance as described above. Upon expiry of the three-year period, the qualifications of the company secretary will be further evaluated by the Company in order to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can duly be satisfied.

On the basis set out above, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.17 of the Listing Rules for a period of three years from the date of Listing.

STAFF

As at 31st March, 2003, the Group had a total of 62,180 full-time employees, a breakdown of employees by functions is as follows:

	The Company	Industrial Park	Weihai Weiqiao	Luteng Textile	Total
Production	37,555	12,322	922	501	51,300
Quality control and product development	6,488	2,659	234	32	9,413
Management and administration	687	448	61	7	1,203
Sales and marketing	201	—	—	—	201
Finance and accounting	<u>50</u>	<u>6</u>	<u>4</u>	<u>3</u>	<u>63</u>
Total	<u><u>44,981</u></u>	<u><u>15,435</u></u>	<u><u>1,221</u></u>	<u><u>543</u></u>	<u><u>62,180</u></u>

THE GROUP'S RELATIONSHIP WITH STAFF

The Group recognises the importance of a good relationship with its employees. The remuneration payable to employees includes salaries and allowances. The Group continues to provide training for its staff to enhance technical and product knowledge as well as knowledge of industry quality standards.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

STAFF BENEFITS

During the Track Record Period, the Group did not have any housing benefit scheme or directors' bonus scheme. However, the Group has three types of welfare scheme in the form of endowment, basic medical and unemployment insurance.

In accordance with the respective insurance implementation plan made by the local governments, the Company, Industrial Park and Luteng Textile have arranged endowment, basic medical and unemployment insurance for their employees who have city and township residency. As at 31st March, 2003, the Company, Industrial Park and Luteng Textile had about 7,300 employees with city and township residency and about 53,700 employees without city and township residency.

Weihai Weiqiao is currently not required to arrange any such insurance for its employees under the insurance implementation plan made by the local government. However, it is required to arrange endowment and unemployment insurance for its employees with city and township residency by 1st January, 2005. As at 31st March, 2003, Weihai Weiqiao had about 1,200 employees, none of whom has city and township residency.

Details of the endowment, basic medical and unemployment insurance currently provided by the Group to its employees are as follow:

1. Endowment Insurance

Pursuant to 國務院關於企業職工養老保險制度改革的決定 (the Decision of the State Council regarding the Reform on the Enterprises Employees Endowment Insurance System), the local governments have formulated their respective insurance implementation plans under which the Company, Industrial Park and Luteng Textile have arranged endowment insurance for their employees who have city and township residency at the rate of 20% of the wages of such employees since 1st January, 2003. As there is no requirement for the provision of endowment insurance for employees without city and township residency under the aforesaid Decision or the respective insurance implementation plans, the Group has not arranged, and does not have any present intention to arrange, endowment insurance for such employees.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

2. Basic Medical Insurance

Pursuant to 國務院關於建立城鎮職工基本醫療保險制度的決定 (the Decision regarding the Establishment of the Basic Medical Insurance System for Employees with City and Township Residency), the local governments have formulated their respective insurance implementation plans under which the Company, Industrial Park and Luteng Textile have arranged basic medical insurance for their employees who have city and township residency at the rate of 6% of the wages of such employees since 1st January, 2003.

Although the aforesaid Decision is silent as regards the provision of medical insurance to other employees, the local governments have required the Company, Industrial Park and Luteng Textile to arrange basic medical insurance to employees without city and township residency before the end of 2004. No details as to how such insurance should be arranged have been announced yet. If the schedule be adhered to and the Group is required to provide basic medical insurance to its employees without city and township residency as well, the Directors believe that the additional insurance payment might affect the Group's profitability but there should not be any substantial adverse impact on the overall financial position of the Group.

3. Unemployment Insurance

Pursuant to 失業保險條例 (the Regulations for Unemployment Insurance), the local governments have formulated their insurance implementation plans under which the Company and Luteng Textile have arranged unemployment insurance for their employees who have city and township residency at the rate of 2% of the wages of such employees since 1st January, 2003. Industrial Park has got unemployment insurance for its employees who have city and township residency at the rate of 2% of the wages of such employees since its incorporation. As there is no requirement for the provision of unemployment insurance for employees without city and township residency under the aforesaid Regulations or the respective insurance implementation plans, the Group has not arranged, and does not have any present intention to arrange, unemployment insurance for such employees.

The Company has been advised by its legal advisers on PRC law that the above arrangements are in compliance with all relevant PRC laws and regulations and that, save as disclosed above, the Group is not required under PRC laws and regulations to provide any other staff welfare schemes.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 20th August, 2003 in compliance with the Code of Best Practice as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process of the Group. The audit committee consists of the three independent non-executive Directors, namely Wang Naixin, Xu Wenying and Chan Wing Yau, George.

DIRECTORS' AND SUPERVISORS' REMUNERATION

In each of the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003, the total remuneration of the Directors were about RMB116,000, RMB116,000, RMB136,000 and RMB315,000, respectively, and the total remuneration of the Supervisors were about RMB120,000, RMB116,000, RMB76,000 and RMB26,000, respectively. The aggregate remuneration payable to the Directors and the Supervisors for the year ending 31st December, 2003 is estimated to be about RMB1,594,760. In addition, for the year ending 31st December, 2003, the Company has recorded the payment of an aggregate sum of RMB5,584 as remuneration to two former directors who ceased to be the Company's directors from February 2003.

Further information about the service contracts/letters of appointment entered into between the Company and the Directors/Supervisors is set out in the section headed "Directors and Supervisors — 1. Particulars of service contracts and letters of appointment" in appendix VII to this prospectus.

STAFF COSTS

As stated in the accountants' report set out in appendix I to the prospectus, the staff costs of the Group (excluding Directors' and Supervisors' emoluments, which are set out in the paragraph headed "Directors' and Supervisors' Remuneration" above) in each of the three financial years ended 31 December 2002 and the three months ended 31st March, 2003 were about RMB97 million, RMB207 million, RMB332 million and RMB134 million, respectively.

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised, the Company's share capital immediately following the Share Offer will be as follows:

		RMB	Approximate percentage of issued share capital (%)
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer:</i>			
<i>(Shares)</i>			
530,770,000	Domestic Shares in issue	530,770,000	68.00
	H Shares to be issued under the Share Offer:		
224,793,000	— Under the Placing (subject to reallocation)	224,793,000	28.80
24,977,000	— Under the Public Offer (subject to reallocation)	24,977,000	3.20
<u>780,540,000</u>	Total	<u>780,540,000</u>	<u>100.00</u>

Assuming the Over-allotment Option is exercised in full, the Company's share capital immediately following the Share Offer will be as follows:

		RMB	Approximate percentage of issued share capital (%)
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer:</i>			
<i>(Shares)</i>			
530,770,000	Domestic Shares in issue	530,770,000	64.89
	H Shares to be issued under the Share Offer:		
262,258,500	— Under the Placing (subject to reallocation)	262,258,500	32.06
24,977,000	— Under the Public Offer (subject to reallocation)	24,977,000	3.05
<u>818,005,500</u>	Total	<u>818,005,500</u>	<u>100.00</u>

SHARE CAPITAL

Notes:

- (1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.
- (2) Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares are only issued for subscription and trading by legal persons or natural persons in countries or places outside the PRC (including those persons in Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC), while the subscription for and dealings in H Shares have to be made in Hong Kong dollars. Conversely, Domestic Shares are only issued for subscription and trading by legal persons or natural persons in the PRC (excluding those in Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC), while the subscription for and dealings in Domestic Shares have to be made in Renminbi. In accordance with the requirement of article 27 of the Special Regulations, the payment of dividends on H Shares has to be made in Hong Kong dollars. Under the PRC laws, the payment of dividends on Domestic Shares has to be made in Renminbi.
- (3) Save as mentioned in note (2) above and the required approval for certain proposals affecting the Company, the notices and financial reports addressed to its shareholders, the resolution of disputes, the method of share registration and transfer for different parts of the register of members, and the appointment of receiving agent (all as provided for in the Articles of Association and summarised in appendix VI to this prospectus), Domestic Shares rank *pari passu* with H Shares, in particular in the declaration, payment or distribution of dividends in full from the date of publication of this prospectus. Nonetheless, the transfer of Domestic Shares (including Domestic Shares held by the Directors, the Supervisors and the staff of the Company, if any) is subject to restrictions imposed by PRC law from time to time.
- (4) Domestic Shares will not be admitted for listing or dealing in any authorised trading facility such as the Securities Trading Automated Quotation System in the PRC.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Share Offer (but without taking into account of H Shares which may be issued under the Share Offer), the following shareholders will be directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company:

Name	Number of Domestic Shares	Approximate percentage of voting power (%)
ZCSU (<i>Note 1</i>)	410,311,100	52.57
Holding Company	410,311,100	52.57

Note 1: ZCSU is the controlling shareholder of Holding Company.

Holding Company holds 410,311,100 Domestic Shares (representing about 77.3% of the issued share capital of the Company prior to completion of the Share Offer and about 52.57% after completion of the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option)).

Each of ZCSU and Holding Company has undertaken to the Stock Exchange and the Company that:

- (a) within the six months from the date on which dealings in the H Shares first commence on the Stock Exchange, it shall not dispose of (or procure that Holding Company disposes of, in the case of ZCSU) any of the Domestic Shares beneficially owned by Holding Company; and
- (b) within the six months from the date on which the period referred to in paragraph (a) above expires, it shall not dispose of (or permit Holding Company to dispose of, in the case of ZCSU) any of the Domestic Shares beneficially owned by Holding Company if, immediately following such disposal, ZCSU and Holding Company would cease to be controlling shareholders (as defined in the Listing Rules) of the Company.

Holding Company has also undertaken to the Stock Exchange and the Company that within the 12 months from the date on which dealings in the H Shares first commence on the Stock Exchange, it shall:

- (1) when it pledges/charges any Domestic Shares beneficially owned by it, immediately inform the Company of such pledge/charge together with the number of Domestic Shares so pledged/charged; and
- (ii) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Domestic Shares will be disposed of, immediately inform the Company of such indications.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 30th June, 2003, being the recent practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of about RMB5,408 million, including short-term bank loans of about RMB406 million, bills payable of about RMB631 million, letters of credit (included as part of trade payables) of about RMB1,997 million, long term payable to Holding Company of about RMB179 million and long-term bank loans of about RMB2,195 million. Other than all the letters of credit and certain of the bank loans (aggregating about US\$74 million or about RMB613 million equivalent) which are denominated in US Dollars, all the remaining loans are denominated in Renminbi.

Certain of the bank loans of the Group are secured by the Group's buildings, and machinery and equipment of aggregate net book value of about RMB3,018 million as at 30th June, 2003. In addition, certain of the Group's bank loans as at 30th June, 2003 are secured by certain of the Group's export VAT refundable and raw materials in transit up to about RMB20 million and RMB34 million, respectively. Holding Company has guaranteed certain of the Group's bank loans up to about RMB200 million as at 30th June, 2003. Included in the above-mentioned RMB200 million bank loans as at 30th June, 2003, up to about RMB40 million bank loans are secured by certain of Holding Company's land and buildings. WCAI has guaranteed bank loans of Weihai Weiqiao up to about RMB1.8 million as at 30th June, 2003. Furthermore, certain of the bills payable of the Group as at 30th June, 2003 are secured by the Group's machinery and equipment of aggregate net book value of about RMB70 million, and certain of the Group's time deposits of about RMB279 million. The Company has guaranteed bank loans and bills payable of certain of its subsidiaries up to about RMB167 million and RMB40 million, respectively, as at 30th June, 2003.

Subsequent to 30th June, 2003, the Group had the following changes made to the guarantees provided against its bank loans:

- (i) On 8th July, 2003, certain guarantees provided by the Company against bank loans of Industrial Park of about RMB41 million were released and replaced by other guarantees severally provided by the Company and Holding Company. Pursuant to the new guarantees, the Company and Holding Company agreed to guarantee severally 97% and 3%, respectively, of the obligations of Industrial Park in respect of certain bank loans amounting to about RMB41 million. Each of the guarantees will continue for a period of two years after the day on which relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB41 million are within the period from 17th July, 2005 to 30th December, 2005.
- (ii) On 14th July, 2003, certain guarantees provided by the Company against bank loans of Weihai Weiqiao of about RMB84 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to the

FINANCIAL INFORMATION

new guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to about RMB84 million. Each of the guarantees will continue for a period of two years after the day on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB84 million are within the period from 19th November, 2005 to 27th February, 2006.

- (iii) In addition to note (ii) above, on 14th July, 2003, certain guarantees provided by Holding Company against bank loans of Weihai Weiqiao of about RMB76 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to these guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to about RMB76 million. Each of the guarantees will continue for a period of two years after the day on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB76 million are within the period from 30th July, 2005 to 9th October, 2005.
- (iv) On 18th August, 2003, certain guarantees provided by the Company against a bank loan and certain bills payable of RMB30 million and RMB40 million, respectively of Weihai Weiqiao was released and replaced by another guarantee severally provided by the Company and WCAI. Pursuant to the guarantee, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of a bank loan of RMB30 million and bills payable of RMB40 million. The guarantee will continue for a period of two years after the day on which the relevant loan repayment or the settlement of the relevant bills payable is made. The expiry dates of the aforesaid bank loan and bills payable are 27th June, 2004 and 27th December, 2003, respectively.
- (v) Except for the guarantees severally provided by the Holding Company and the Company in accordance with their respective equity interests as set out in item (i) above, up to 14th July, 2003, Holding Company released all its guarantees provided against, and the assets pledged to secure, the banking facilities, entirely representing bank loans, of RMB200 million of the Group.

Contingent liabilities

As at the close of business on 30th June, 2003, the Group had contingent liabilities amounting to about RMB281 million, which included letters of credit issued (denominated in US Dollars) of about RMB74 million, and the guarantees given to banks in connection with facilities granted to the Company's subsidiaries, representing bank loans of about RMB167 million and bills payable of RMB40 million.

On 8th July, 2003, certain guarantees provided by the Company against bank loans of Industrial Park of about RMB41 million were released and replaced by other guarantees as

FINANCIAL INFORMATION

set out in item (i) under the paragraph headed “Indebtedness — Borrowings” above. On 14th July, 2003 and 18th August, 2003, certain guarantees provided by the Company against bank loans and bills payable of Weihai Weiqiao of about RMB114 million and bills payable of about RMB40 million, respectively, were released and replaced by other guarantees as set out in items (ii) and (iv) under the paragraph headed “Indebtedness — Borrowings” above. On 14th July, 2003, certain guarantees provided by Holding Company against bank loans of Weihai Weiqiao of about RMB76 million were released and replaced by other guarantees as set out in item (iii) under the paragraph headed “Indebtedness — Borrowings” above.

Disclaimer

Save as above disclosed, as at the close of business on 30th June, 2003, the Group did not have any outstanding mortgages, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

No Material changes

Save for the additional bank loans of about RMB324 million obtained subsequent to 30th June, 2003 for financing the Group’s working capital requirements, and certain subsequent changes made to the guarantees provided by the Company against banking facilities of its subsidiaries as described in the paragraph headed “Indebtedness — Borrowings”, the Directors have confirmed that there has been no material change in the indebtedness, commitments and contingent liabilities of the Group since 30th June, 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30th June, 2003, according to the unaudited management accounts, the net current assets of the Group was about RMB298 million. The current assets mainly comprised cash and cash equivalents of RMB672 million, pledged deposits of about RMB778 million, inventories of about RMB1,957 million, accounts receivable of about RMB374 million, and prepayments, deposits and other receivables of about RMB96 million. The current liabilities mainly comprised short-term bank loans of about RMB406 million, bills payable of about RMB631 million, amount due to Holding Company of about RMB43 million, accounts payable of about RMB2,058 million, other payables and accruals of about RMB233 million, dividend payable of about RMB2 million, tax payable of about RMB164 million and amounts due to related parties of about RMB42 million.

FINANCIAL INFORMATION

Loan and banking facilities

The Group has been financing its operations through internal generated cash-flow and banking facilities provided by its receiving banks. Save for the bank loans and letters of credit of about RMB2,601 million and about RMB2,071 million, respectively, as disclosed in the section headed “Indebtedness” above, the Group did not have any other banking facilities as at 30th June, 2003.

Set out below is the information relating to the banking guarantees of the Group as at 30th June, 2003:

- (i) Certain of the Group's bank loans are secured by certain of the Group's buildings, machinery and equipment, which had an aggregate net book value of about RMB3,018 million as at 30th June, 2003.
- (ii) Certain of the Group's bank loans are secured by certain of the Company's raw materials in transit up to about RMB34 million as at 30th June, 2003.
- (iii) Certain of the Group's bank loans are secured by certain of the Group's export VAT refundable up to about RMB20 million as at 30th June, 2003.
- (iv) The Company's immediate holding company has guaranteed certain of the Group's bank loans up to about RMB200 million as at 30th June, 2003. Included in the above-mentioned RMB200 million guaranteed bank loans, up to about RMB40 million were also secured by Holding Company's land and buildings as at 30th June, 2003.
- (v) WCAI has guaranteed bank loans of Waihai Weiqiao up to about RMB1.8 million as at 30th June, 2003.
- (vi) Certain of the bills payable of the Group as at 30th June, 2003 are secured by the Group's machinery and equipment of aggregate net book value of about RMB70 million, and certain of the Group's time deposits of about RMB279 million.
- (vii) The Company has guaranteed bank loans of certain of its subsidiaries up to about RMB167 million as at 30th June, 2003.

Subsequent to 30th June, 2003, the Group has made changes to the above banking guarantees, details of which are summarised in items (i) to (v) under the paragraph headed “Indebtedness — Borrowings” above.

FINANCIAL INFORMATION

Capital commitments

As at 30th June, 2003, the Group did not have any material capital commitments.

DISCLOSURE UNDER RULE 19 OF THE CODE OF BEST PRACTICE UNDER THE LISTING RULES

The Directors have confirmed that as at 30th June, 2003, they are not aware of any circumstances which would give rise to a disclosure under Rule 19 of the Code of Best Practice under the Listing Rules.

Foreign exchange risk commitment

Majority of the income and expenditure of the Group were denominated in Renminbi and US Dollars. During the period under review, the Group had no any material difficulty or influence to its operations or current capital as a result of foreign exchange fluctuations. The Directors believe that the Group will have adequate foreign exchange to meet its foreign exchange needs.

FINANCIAL INFORMATION

TRADING RECORD

The following is a summary of the Group's consolidated results for each of the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003 extracted from the accountants' report set out in appendix I. The results were prepared on the basis of presentation as set out in the above mentioned accountants' report.

	Year ended 31st December,			Three-month period ended
	2000	2001	2002	31st March, 2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover (<i>Note 1</i>)	1,559,284	2,353,637	4,380,923	1,255,068
Cost of sales	<u>(1,290,790)</u>	<u>(2,007,486)</u>	<u>(3,729,267)</u>	<u>(1,011,738)</u>
Gross profit	268,494	346,151	651,656	243,330
Other revenue	2,018	23,748	49,303	12,014
Selling and distribution costs	(26,165)	(40,794)	(78,565)	(33,676)
Administrative expenses	(9,490)	(27,212)	(40,189)	(16,227)
Other operating expenses	<u>(11,577)</u>	<u>(9,470)</u>	<u>(19,641)</u>	<u>(4,622)</u>
Profit from operating activities	223,280	292,423	562,564	200,819
Finance costs	<u>(16,500)</u>	<u>(46,009)</u>	<u>(101,506)</u>	<u>(29,882)</u>
Profit before tax	206,780	246,414	461,058	170,937
Tax	<u>(73,057)</u>	<u>(88,977)</u>	<u>(169,627)</u>	<u>(61,765)</u>
Profit before minority interests	133,723	157,437	291,431	109,172
Minority interests	<u>—</u>	<u>(3,397)</u>	<u>(3,191)</u>	<u>(1,000)</u>
Net profit from ordinary activities attributable to shareholders	<u>133,723</u>	<u>154,040</u>	<u>288,240</u>	<u>108,172</u>
Proposed final dividend	<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
Earnings per Share				
— basic (<i>RMB</i>) (<i>Note 2</i>)	<u>0.66</u>	<u>0.76</u>	<u>1.01</u>	<u>0.20</u>

FINANCIAL INFORMATION

Notes:

(1) **Turnover**

Turnover represents the invoiced value of the goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

The following are analysis of the turnover by major product segment:

	Year ended 31st December,			Three-month period ended 31st March,
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cotton yarn	1,031,496	1,118,096	2,076,927	599,242
Grey fabric	505,786	863,914	1,417,589	482,464
Denim	<u>22,002</u>	<u>371,627</u>	<u>886,407</u>	<u>173,362</u>
	<u>1,559,284</u>	<u>2,353,637</u>	<u>4,380,923</u>	<u>1,255,068</u>

(2) **Earnings per Share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the three years ended 31st December, 2002 and the three months ended 31st March, 2003 of about RMB133,723,000, RMB154,040,000, RMB288,240,000 and RMB108,172,000, respectively, and the weighted average of about 202,040,000, 202,040,000, 284,897,973 and 530,770,000 Shares in issue during the respective periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Turnover

The results of the Group mainly included the results of the Company and those of Industrial Park, Luteng Textile and Weihai Weiqiao from the respective dates of their establishment or the dates of acquisition where this is a shorter period. The revenue of the Group were mainly derived from the sale of the product mix of the following three major categories - cotton yarn, grey fabric and denim.

Cost of sales

The cost of sales of the Group mainly comprised the cost of cotton, direct labour cost and production overheads (including depreciation).

FINANCIAL INFORMATION

Selling and distribution costs, administrative expenses and other operating expenses

The operating expenses of the Group included selling and distribution costs and administrative expenses and other operating expenses. The selling and distribution costs were mainly transportation expenses and sales commission. The administrative expenses included salary expenses and other staff costs, travelling and entertainment expenses. Other operating expenses were mainly bank charges, exchange losses and bad and doubtful debt provision.

Taxation

For each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003, as the Group did not have any taxable profits deriving from Hong Kong, the Group was not subject to Hong Kong income tax.

In general, the Group is subject to PRC Enterprise Income Tax ("EIT") at a tax rate of 33% on the taxable profits. In accordance with the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) as a foreign invested company, Luteng Textile is subject to EIT at 30%, but it is entitled to full exemption from EIT for the first two years and 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. Luteng Textile is also subject to local income tax at 3% but the local tax authority has granted it full exemption from such tax commencing from 2002. Luteng Textile was incorporated on 12th September, 2002 and had a loss position of about RMB308,000 for the period from the date of incorporation to 31st December, 2002.

In addition to the income tax, the Group is also subject to value-added tax ("VAT"), which is the principal indirect tax on the sales of products ("output VAT"). Output VAT is calculated at the rate of 17%, of the invoiced value of sales and is payable by the customer in addition to the invoiced value of sales. The Group pays VAT on its purchases ("input VAT") which is deducted against output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, included in other payables and accruals on the balance sheet.

FINANCIAL INFORMATION

Discussion on the results of the Group during the Relevant Period

Comparison of the year ended 31st December, 2000 to the year ended 31st December, 2001

In 2001, the turnover of the Group increased by RMB794 million (or an increase of 51% over RMB1,559 million in 2000) to RMB2,354 million. Turnover on exports in each of 2000 and 2001 accounted for about 55.1% and 53.9% of the Group's turnover for that year. The remaining amount of the turnover were domestic sales. The table below are analysis by segments of the major product categories in each of the two years:

Product category	Turnover			
	For the year ended 31st December,		2000	
	2001		2000	
	RMB'000	%	RMB'000	%
Cotton yarn	1,118,096	47.5	1,031,496	66.2
Grey fabric	863,914	36.7	505,786	32.4
Denim	<u>371,627</u>	<u>15.8</u>	<u>22,002</u>	<u>1.4</u>
Total	<u>2,353,637</u>	<u>100.0</u>	<u>1,559,284</u>	<u>100.0</u>

Product category	Gross profit			
	For the year ended 31st December,		2000	
	2001		2000	
	RMB'000	%	RMB'000	%
Cotton yarn	289,068	25.9	204,170	19.8
Grey fabric	(18,480)	(2.1)	57,900	11.4
Denim	<u>75,563</u>	<u>20.3</u>	<u>6,424</u>	<u>29.2</u>
Total	<u>346,151</u>	<u>14.7</u>	<u>268,494</u>	<u>17.2</u>

As indicated in the above table, sales of the major products of the Group, cotton yarn, grey fabrics and denim all increased. In 2001, there was a considerable increase in the sales of the Group, mainly attributable to the sale of grey fabric and denim in the PRC market starting from May 2001 after the acquisition of the operating assets and related liabilities of four fabric weaving factories located in the First Production Area from Holding Company in May 2001 and the sale of additional yarn and grey fabric products purchased from the newly-established Second Production Area in late 2001.

FINANCIAL INFORMATION

The gross profit margin of the Group decreased from about 17.2% in 2000 to about 14.7% in 2001. The gross profit margin of cotton yarn increased from about 19.8% in 2000 to about 25.9% in 2001. The lift in gross profit margin of cotton yarn in 2001 was mainly due to the discontinuation of the sale of relatively low margin products from May 2001 onward after the acquisition of the operating assets and related liabilities of four fabric weaving factories to consume, among others, most of the above-mentioned relatively low margin products for its own denim production.

The gross profit margin of grey fabric dropped from about 11.4% in 2000 to (2.1)% mainly due to a decrease in unit selling price as a result of market competition and the pricing strategy implemented for the development of overseas fabric market in mid-2001. The gross profit of denim decreased from about 29.2% in 2000 to about 20.3% in 2001 as the Company commenced the mass market sale of denim in the PRC with the reduction of the unit price after the acquisition of denim production facilities from Holding Company in May 2001.

In 2001, selling and distribution costs increased by about 55.9% to about RMB41 million, in line with the increase in sales in 2001. Administrative expenses increased by about RMB18 million from about RMB9 million to about RMB27 million. The increase was mainly due to an increase of staff costs and related office expenses in 2001.

Finance costs increased by about 178.8% to about RMB46 million in 2001 from RMB16.5 million in 2000 as total bank loan balance increased by about RMB912 million in 2001 to about RMB1,253 million. The new bank loans were mainly related to the acquisition of related liabilities of the four fabric weaving factories in May 2001 and the general working capital needs of the Group after the expansion.

Due to the increase of profit before taxation by about 19.2%, the income tax increased by 21.8%, or about RMB16 million to about RMB89 million in 2001. The effective tax rates of the Group in 2000 and 2001 were about 35.3% and about 36.1% respectively.

The balance of trade receivables increased by 150.8%. Trade receivables turnover increased from about 24 days in 2000 to 39 days in 2001. The increase in the balance of trade receivables and trade receivables turnover of the Group was mainly due to the fact that the Group extended credit terms of trade receivables of its key international and domestic clients from about 30 to 45 days to 60 days in order to deal with the adverse conditions in international and domestic cotton textile market in 2001. Inventory turnover reduced from 73 days in 2000 to 64 days in 2001 as the Group lowered its cotton inventory level mainly resulted from the decrease in the Group's cotton inventory level with the consideration of the decrease in cotton price in 2001 and the strengthening of inventory control. Net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) in 2000 and 2001 were about 0.49 and 1.73 respectively. The surge of gearing ratio in 2001 was mainly because of a significant increase in bank loans as at 31st

FINANCIAL INFORMATION

December, 2001 as compared to 31st December, 2000, resulting from the acquisition of machinery and equipment for a total sum of about RMB267 million by the Company from Holding Company, satisfied by assumption of short term bank loans amounting to RMB237 million and cash settlement of RMB30 million, and the net additions of other bank loans of about RMB675 million in 2001 for the purpose of meeting the financial requirements of the Group's operating activities.

The carrying values of land and buildings and machinery and equipment increased by about RMB538.6 million to about RMB819.6 million as at 31st December, 2001. The increase was mainly due to the acquisition of operating assets of the four fabric weaving factories by the Group from Holding Company in May 2001. In the acquisition of operating assets of the four fabric weaving factories in May 2001, the fixed assets that the Company obtained from the acquisition of the four fabric weaving factories amounted to about RMB267 million.

Comparisons of the year ended 31st December, 2001 to the year ended 31st December, 2002

In 2002, the turnover of the Group increased by RMB2,027 million, or 86.1%, to RMB4,381 million. Export sales in 2002 accounted for about 50.7% of the Group's turnover for the year. The balance of the sales were domestic sales. The table below sets out the sales analysis by major product categories in each of the two years:

Product category	Turnover			
	For the year ended 31st December,			
	2002		2001	
	RMB'000	%	RMB'000	%
Cotton yarn	2,076,927	47.4	1,118,096	47.5
Grey fabric	1,417,589	32.4	863,914	36.7
Denim	<u>886,407</u>	<u>20.2</u>	<u>371,627</u>	<u>15.8</u>
Total	<u>4,380,923</u>	<u>100.0</u>	<u>2,353,637</u>	<u>100.0</u>

Product category	Gross margin			
	For the year ended 31st December,			
	2002		2001	
	RMB'000	%	RMB'000	%
Cotton yarn	489,449	23.6	289,068	25.9
Grey fabric	48,014	3.4	(18,480)	(2.1)
Denim	<u>114,193</u>	<u>12.9</u>	<u>75,563</u>	<u>20.3</u>
Total	<u>651,656</u>	<u>14.9</u>	<u>346,151</u>	<u>14.7</u>

FINANCIAL INFORMATION

As indicated in the above table, sales of the Group's main products, cotton yarn, grey fabrics and denim increased. The sales of cotton yarn, grey fabric and denim recorded significant growth by about 85.8%, 64.1% and 138.5% respectively, which was mainly as a result of the commencement of full operation of the Second Production Area and trial operation of the Third Production Area during the year.

In 2002, the gross profit margin of the Group increased slightly to about 14.9%. The gross profit margin of cotton yarn decreased from about 25.9% in 2001 to about 23.6% in 2002. The slight decline in gross profit margin of cotton yarn in 2002 was mainly due to a larger degree of decrease in unit selling price than that in unit cost.

The gross profit margin of grey fabric increased from about (2.1)% in 2001 to 3.4% in 2002 mainly due to a decrease in unit cost resulting from the decrease in cotton cost. The gross profit margin of denim decreased further from about 20.3% in 2001 to about 12.9% in 2002 mainly due to the decline in unit selling price as a result of the increased market competition.

Selling and distribution costs in 2002 increased by 92.6% to RMB79 million mainly due to the increase in transportation fee, salesperson's salaries and sale commission. The increases in selling and distribution costs were reasonable as such increases were roughly in line with the increase in sales in 2002. Administrative expenses increased by 47.7% to RMB40 million mainly due to the staff costs and related office expenses resulted from the expansion of production capacity in 2002.

Due to the increase in the total loan from RMB1,253 million as at 31st December, 2001 to RMB2,355 million as at 31st December, 2002, finance costs increased by 120.6% to RMB102 million in 2002 from RMB46 million in 2001. The new bank loans were mainly related to the acquisition of related liabilities of the Second Production Area and the Third Production Area and 91% of equity interests in Industrial Park in 2002 and the general working capital needs of the Group thereafter.

Due to the increase of profit before taxation by 87.1%, income tax have increased by RMB81 million, or 90.6% to RMB170 million in 2002. The effective tax rate of the Group in 2002 was 36.8%.

Balance of trade receivables increased by 0.2% as at 31st December, 2002 as compared to that at 31st December, 2001, and trade receivables turnover was reduced to 21 days in 2002. The decrease in trade receivables turnover of the Group was mainly due to the fact that the Group shortened credit terms of trade receivables of its key international and domestic clients to about 45 days after the improvement of international and domestic cotton textile market in 2002. Inventory turnover increased to 73 days in 2002 as result of a significant amount of raw materials in transit of about RMB206 million as at 31 December

FINANCIAL INFORMATION

2002 due to a significant increase in the quantity of cotton import by the Group from about 2,200 tons in 2001 to about 57,215 tons in 2002. Net debt-to-equity ratio as at 31st December, 2002 was about 1.42.

The carrying values of land and buildings and machinery and equipment increased by about RMB2,339.7 million to about RMB3,159.3 million as at 31st December, 2002. The increase was mainly due to the acquisition of operating assets of the Second Production Area and the Third Production Area and the acquisition of 91% of equity interests in Industrial Park in 2002.

For the three months ended 31st March, 2003

The turnover of the Group for the three months ended 31st March, 2003 was RMB1,255.1 million. Export sales accounted for about 54.6% of the Group's turnover for the three months ended 31st March, 2003. The balance of the sales were domestic sales. The table below sets out the sales analysis by major product categories for the three months ended 31st March, 2003:

Product category	Turnover	
	For the three months ended 31st March, 2003	
	<i>RMB'000</i>	<i>%</i>
Cotton yarn	599,242	47.7
Grey fabric	482,464	38.5
Denim	<u>173,362</u>	<u>13.8</u>
Total	<u>1,255,068</u>	<u>100.0</u>

Product category	Gross margin	
	For the three months ended 31st March, 2003	
	<i>RMB'000</i>	<i>%</i>
Cotton yarn	160,158	26.7
Grey fabric	49,468	10.3
Denim	<u>33,704</u>	<u>19.4</u>
Total	<u>243,330</u>	<u>19.4</u>

The gross profit margin of the Group for the three months ended 31st March, 2003 increased to 19.4%. The increase in the gross profit margin was contributed by the larger degree of increase in unit selling price of cotton yarn and grey fabric driven by the increase in cotton price than that in their respective unit cost.

FINANCIAL INFORMATION

Administrative expenses was about RMB16.2 million. Sales and distribution costs was about RMB33.7 million.

Finance costs related to the outstanding bank loans of the Group was about RMB34.7 million, of which RMB4.8 million was capitalized. As a result, financial costs was about RMB29.9 million.

Income tax was RMB61.8 million. The effective tax rate of the Group was 36.1%.

Balance of trade receivables as at 31st March, 2003 was about RMB351.5 million and accounts receivables turnover increased to 25 days in the first quarter of 2003 due to the surge in export of the Group, which normally has longer credit period than the domestic sales. Inventory turnover increased to 110 days as a result of a 190.3% growth of raw materials in transit reaching RMB599 million as at 31st March, 2003. The Group increased its purchase of lint cotton in the first quarter of 2003 to meet the production needs in the second quarter of 2003 given that the market price of overseas lint cotton was lower than that in PRC market and the Company obtained the import quota for lint cotton from the government. For the purpose of securing enough materials for future production, the Group purchased a relatively large batch of raw materials in late March 2003. Net debt-to-equity ratio as at 31st March, 2003 was about 1.35.

Performance of operating assets prior to the transfer to the Company

The following table sets out the unaudited turnover and profitability of the various operating assets, principally comprising the operating assets relating to the fabric weaving business of the First Production Area, the operating assets of the Second Production Area and the Third Production Area, and the equity interests of Industrial Park, during the Track Record Period prior to their actual transfer to the Company from Holding Company and Binzhou Weiqiao (in relation to the transfer of 1% equity interest of Industrial Park from Binzhou Weiqiao to the Company) (hereinafter, known as the “Excluded Assets”):

	Year ended 31st December,			Three-month period ended
	2000	2001	2002	31st March, 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	<u>658,295</u>	<u>657,447</u>	<u>1,188,899</u>	<u>59,977</u>
Net profit/(loss)	<u>30,310</u>	<u>(4,679)</u>	<u>(13,521)</u>	<u>(9,056)</u>

Further details regarding the timing of the transfers have been disclosed in the paragraph headed “History and development” of this prospectus.

FINANCIAL INFORMATION

The unaudited net loss incurred by the Excluded Assets during some of the Track Record Period was primarily due to the trial run period of certain Excluded Assets.

Set out below are the unaudited pro forma turnover and the unaudited pro forma net profit of the Group had the Excluded Assets been transferred to the Company from Holding Company as at the beginning of the Track Record Period, or from the respective dates of their incorporation/establishment where this is a shorter period, after giving effect to the elimination of the material inter-company transactions between the Excluded Assets and the companies now comprising the Group on a pro forma basis:

	Year ended 31st December,			Three-month period ended
	2000	2001	2002	31st March,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Pro forma turnover	<u>1,511,844</u>	<u>2,383,198</u>	<u>3,982,642</u>	<u>1,255,068</u>
Pro forma net profit	<u>164,033</u>	<u>149,361</u>	<u>274,719</u>	<u>99,116</u>

In 2001, there was a considerable increase in the sales of the Group because in November 2001, the Second Production Area and the Third Production Area established by Holding Company commenced full operation and trial run respectively. In addition, Weihai Weiqiao, which was established in July 2001, commenced full operation in September 2001.

The increase in sales in 2002 because of the reach of full operation of the Second Production Area in 2002 and the commencement of full operation of the Third Production Area in October 2002. In addition, Industrial Park, which was established in November 2001, began trial run in September 2002. The above were the principal reasons for the marked increase in turnover in 2002 as compared to that in 2001.

In the first quarter of 2003, due to the full operation of the Third Production Area and the gradual increase in production level of Industrial Park, the amount of sales on an annualized basis increased as compared to that in 2002.

The net profit margin calculated based on the amounts of unaudited pro forma net profit and unaudited pro forma turnover during each of the Track Record Period as set out in the above table were 10.8%, 6.3%, 6.9% and 7.9%, respectively. Trial run period of certain Excluded Assets has contributed negatively to the net profit margin during the Track Record Period. The decrease in net profit margin in 2001 as compared to that in 2000 was also resulted from the adverse conditions in international and domestic cotton textile market in 2001. As the international and domestic cotton textile market improved in 2002, the net profit margin improved accordingly.

FINANCIAL INFORMATION

PROPERTY INTERESTS

As at 30th June, 2003, the Group has seven properties including four properties located in Weiqiao Town, one property located in Weihai City and two properties located in Binzhou City, Shandong Province, the PRC. The total site area and the total gross floor area of the properties are about 1,218,700 sq.m. and 1,345,200 sq.m. respectively.

All the lands of the three properties among the four properties located in Weiqiao Town are rented from Holding Company by the Group. The land use right certificates in respect of such properties which are located at First Production Area, Second Production Area and Third Production Area have been obtained by Holding Company. The remaining property with a gross floor area of 3,000 sq.m. located in Weiqiao Town is rented by the Group from Holding Company as office.

Followings are the three properties with leased land use right from the Holding Company:

	Address	Use of Land	No. of Building	Value of Building	% to total production area of the Group
1	Portion of First Production Area and the whole Second Production Area, 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, The PRC	Industrial	67	RMB455,200,000 (100% interest attributable to the Group: RMB455,200,000	45
2	Portion of First Production Area, 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, The PRC	Industrial	1	RMB6,000,000 (75% interest attributable to the Group: RMB4,500,000	1
3	Third Production Area, Xi Wai Huan Road West, Weiqiao Town, Zouping County, Shandong Province, The PRC	Industrial	32	RMB288,100,000 (100% interest attributable to the Group: RMB288,100,000	24

The land use right certificates of one property and two properties respectively located in Weihai City and Binzhou City have been obtained by Weihai Weiqiao and Industrial Park respectively.

FINANCIAL INFORMATION

The above-mentioned properties in the PRC have been valued by Chesterton Petty Limited, an independent property valuer, at about RMB1,141,100,000 as at 30 June 2003.

According to the relevant terms stipulated in the leasing agreements between the Group and Holding Company, the term of leasing is 20 years and such agreements may only be terminated with both parties' consent. Chesterton Petty Limited, an independent valuer, has reviewed the leasing between the Group and Holding Company and has confirmed that rental payable by the Group to Holding Company in respect of the land leased is fair and reasonable to the Group. Therefore, the Directors believe that there is no material adverse effect on the operation of the Group without ownership of the land use right of the properties leased from Holding Company.

The Building Ownership Certificates of all the buildings located in the above-mentioned lands have been obtained by the Group save for the 29 buildings of Industrial Park. Among the 29 buildings of Industrial Park, the construction of 23 buildings were completed around the end of 2002 and that of the remaining six buildings were completed in March 2003. In July 2003, Industrial Park submitted the application for Building Ownership Certificates for these 29 buildings to Binzhou Real Estate Administration Bureau. The Directors estimate that the approving process will take around three months to complete.

As confirmed by Jingtian & Gongcheng, the legal advisers to the Company as to PRC law, there is no legal impediment in obtaining the relevant Building Ownership Certificates in respect of these 29 buildings of Industrial Park and, at present Industrial Park has the right to use, lease, mortgage and transfer the relevant buildings. As such, the Directors consider the risk that Industrial Park's operation would be adversely affected by not being able to obtain the relevant Building Ownership Certificates to be remote.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in appendix III, the forecast of the Group's consolidated profit after tax and minority interests but before extraordinary items for the year ending 31st December, 2003 will not be less than RMB520,000,000 (about HK\$490,566,000).

On the basis of the above consolidated profit forecast and on the assumptions that the weighted average number of 599,200,137 Shares were in issue during the year ending 31st December, 2003, and without taking into any account any H Shares which may be issued pursuant to the Over-allotment Option, the forecast earnings per Share on a weighted average basis will be RMB0.868 (about HK\$0.819) for the year ending 31st December, 2003. Based on a fully diluted basis, the forecast consolidated earnings per Share for the year ending 31st December, 2003 will be RMB0.666 (about HK\$0.628). This is made on the assumption that the Company had been listed since 1st January, 2003, and a total of 780,540,000 Shares were in issue since 1st January, 2003 without taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option.

FINANCIAL INFORMATION

The texts of the letters from the Company's auditors and reporting accountants, Ernst & Young, and from the Sponsor, BNP Paribas Peregrine, in respect of the profit forecast, are set out in appendix III to this prospectus.

DIVIDEND AND WORKING CAPITAL

Dividend

There is no assurance that dividend distributions will continued in the future. Declaration of dividends will be subject to the discretion of the Directors, depending on the Company's profitability, financial conditions, cash requirements and availability and other relevant factors. Furthermore, in accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable annual earnings (i.e., the Company's after tax profits after offsetting (i) the accumulated losses brought down from the previous years, if any, and (ii) the allocations to the statutory common reserve, the statutory public welfare fund and, if any, the discretionary common reserve (in such order of priorities) before payment of any dividend on Shares). According to the Articles of Association, for the purposes of determining profit distribution, the after tax profits of the Company are the lesser of its after tax profits determined in accordance with (i) PRC accounting standard and regulations; and (ii) international accounting standard or the accounting standard of the place where the Shares are listed overseas.

It is the Company's current intention to distribute 35% of the distributable profits for the period from the date of allotment of the Offer Shares to 31st December, 2003 as dividends to the Shareholders, and to recommend annually the distribution to shareholders of about 35% of the Company's distributable annual profits as dividends in the foreseeable future. Such dividend policy may be amended where: (i) the cash available to the Company is in an amount lower than the above mentioned amount; and (ii) there is a negative impact on the cash flow of the Group due to investments made by the Company as approved by the Directors where such investments are not fully covered by appropriate financing. The amounts of dividends actually distributed to holders of H Shares will depend upon the Company earnings and financial condition, operating requirements and capital requirements.

The past dividend distribution shall not be used as a reference or basis to determine the amount of dividend to be declared in the future.

Source of funding for the dividends payable is from the Group's operating cashflow.

Working capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The net tangible assets of the Group are adjusted as follows:

	<i>RMB'000</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31st March, 2003	1,653,469	1,559,876
Less: Intangible asset — technology rights	(11,401)	(10,756)
Add: Intangible asset — negative goodwill	<u>28,780</u>	<u>27,151</u>
	1,670,848	1,576,271
Unaudited consolidated profit after tax and minority interests of the Group for the three-month period ended 30th June, 2003	128,990	121,689
Estimated net proceeds from the Share Offer (<i>Note 1</i>)	<u>1,859,982</u>	<u>1,754,700</u>
Adjusted net tangible assets	<u><u>3,659,820</u></u>	<u><u>3,452,660</u></u>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u><u>RMB4.689</u></u>	<u><u>HK\$4.423</u></u>

Notes:

- (1) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$7.35 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.15 and HK\$8.55 per H Share) and takes no account of any H Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the Share Offer will be about HK\$2,023.1 million.
- (2) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 780,540,000 Shares are in issue and that the Over-allotment Option is not exercised.
- (3) With reference to the valuation of the Group's property interests as set out in appendix IV to this prospectus, the aggregate revalued amount of the property interests of the Group, less the amount attributable to minority interests, was about RMB1,125 million (equivalent to about HK\$1,061 million). The unaudited net book value of these properties as at 30th June, 2003, less the amount attributable to minority interests, was about RMB728 million (equivalent to about HK\$687 million). Thus, the revaluation surplus is about RMB397 million (equivalent to about HK\$374 million), which has not been included in the above adjusted net tangible assets of the Group. **Such a revaluation surplus will not be recorded in the Group's financial statements as the Group accounts for its property interests at cost.** If such revaluation surplus was included in the Group's financial statements for the year ending 31st December, 2003, an additional depreciation charges of about RMB10 million (equivalent to about HK\$9.4 million) per annum would be incurred.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As at 31st March, 2003, in accordance with the PRC Company Law, an amount of about RMB566 million standing to the credit of the Company's capital reserve account and amounts of about RMB50 million and RMB50 million respectively standing to the credit of the Company's statutory surplus reserve and statutory public welfare fund, as determined under the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had retained profits of about RMB434 million available for distribution as dividends.

NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st March, 2003 (being the date to which the latest financial statements of the Group were made up).

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

The Group has been successfully obtaining significant growth in the cotton textile market in the past. Last year was a record-breaking year for the Group in terms of sales and profits. The Directors believed that this momentum has continued this year and the Group will continue to stay at a prominent position in the cotton textile industry both worldwide and in the PRC.

The Group has a mission to become the largest cotton textile producer in the world. To achieve this mission, the Group plans to adopt the strategies and implement the action plans as follows:

1. Product portfolio expansion and existing production technology upgrade

The Group has realized a rapid growth in last three years in terms of its production capacity and product portfolio. To maintain its competitiveness and achieve the further growth, the Group plans to introduce more advanced production equipment to expand its product portfolio to have more high value-added cotton textile products including high-end cotton yarn, textile products for home use, high-end surface materials and denim for apparel and high-end geotextiles. In addition, the Group intends to upgrade its existing production technology by the introduction of blowroom machines, combers and double twisting machines.

2. Market expansion

With the huge market potential in the PRC, the Group will continue to consolidate the relationship with existing customers in the PRC. Internationally, the Group will actively penetrate into other Asian countries, Europe, the U.S., Africa and the Commonwealth of Independent States with the liberalisation and globalisation of the textile industry. From time to time, the Directors will assess the market demand and, if necessary, implement expansion plans to install additional production capacity.

3. Research and development enhancement

With the establishment of a technology development centre by the end of 2004, the Group plans to have more advanced instrumental devices and more professional staff for the research and development of cotton textile products and improvement of spinning and weaving techniques.

4. Information system upgrade

The Group intends to upgrade its information system, in management, operation and accounting aspects to improve operating efficiency and thus enhance its competitiveness.

FUTURE PLANS AND USE OF PROCEEDS

5. Related business acquisition

The Directors will evaluate the possibility of acquiring cotton textile related businesses to strengthen the Group's competitive position in the industry. However, the Group does not have any concrete acquisition plan or target.

At present, the Company does not have any intention to exercise its right of first refusal to acquire Holding Company's interests in Weiqiao Dyeing, Weilian Print or Weiqiao Bleach before the end of 2005.

6. Further improving the quality of human resources

To cope with the future development, the Group will provide additional trainings to its staff and will recruit additional workforce in the production, research and development, marketing and support functions.

USE OF PROCEEDS

The net proceeds of the Share Offer after deducting related expenses, and assuming an Offer Price of HK\$7.35 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.15 and HK\$8.55 per H Share) and that the Over-allotment Option is not exercised at all, are estimated to amount to about HK\$1,754.7 million. To effect the Group's future plans (details of which are more particularly set out in the paragraph headed "Future Plans and Prospects" under the section headed "Future Plans and Use of Proceeds" in this prospectus), the Group currently intends to apply the net proceeds as follows:

- (1) about RMB430 million (equivalent to HK\$406 million) for expanding product portfolio to have more high value-added cotton textile products namely:
 - about RMB325 million (equivalent to HK\$307 million) for high-end surface materials principally for apparel;
 - about RMB55 million (equivalent to HK\$52 million) for high-end geotextiles; and
 - about RMB50 million (equivalent to HK\$47 million) for high-end denim;
- (2) about RMB100 million (equivalent to HK\$94 million) for upgrading the existing production technology including the introduction of blowroom machines, combers and double twisting machines;
- (3) about RMB50 million (equivalent to HK\$47 million) for establishing a technology development centre;

FUTURE PLANS AND USE OF PROCEEDS

- (4) about RMB36 million (equivalent to HK\$34 million) for upgrading the information systems;
- (5) about RMB600 million (equivalent to HK\$566 million) for repaying bank loans;
- (6) about RMB106 million (equivalent to HK\$100 million) for pursuing acquisition opportunities related to the Group's cotton textile manufacturing business; and
- (7) the remaining amount will be used as general working capital.

In the event that any part of the business plans of the Group does not materialize or proceed as planned, the Directors will carefully evaluate the situation and may re-allocate the intended funding to other business plans and/or to new projects of the Group and/or to hold such funds as short-term deposits for so long as the Directors consider it to be in the best interest of the Group and its Shareholders taken as a whole. Should the Directors re-allocate the intended funding to other business plans and/or to new projects of the Group, the Company will make an announcement in due course.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of about HK\$268.4 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by the Group as general working capital. To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, the Directors presently intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with licensed banks or financial institutions or used to purchase money-market instruments.

UNDERWRITING

UNDERWRITERS

Names of Public Offer Underwriters:

BNP Paribas Peregrine
BOCI Asia Limited
China Southern Securities (Hong Kong) Limited
CLSA Limited
Kim Eng Securities (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited
CM-CCS Securities Limited
Guotai Junan Securities (Hong Kong) Limited
SinoPac Securities (Asia) Limited
Tai Fook Securities Company Limited

Names of Placing Underwriters:

BNP Paribas Peregrine
BOCI Asia Limited
China International Capital Corporation (Hong Kong) Limited
CLSA Limited
Nomura International (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited
DBS Asia Capital Limited
ING Bank N.V.
Kim Eng Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering 24,977,000 Public Offer Shares (subject to adjustment) for subscription by way of Public Offer on and subject to the terms and conditions of this prospectus and the related application forms and 224,793,000 Placing Shares (subject to adjustment and to any additional new H Shares to be issued pursuant to the exercise of the Over-allotment Option) for subscription by way of Placing on and subject to the terms and conditions of this prospectus.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the H Shares (subject only to allotment) not later than 23rd September, 2003 (or such later date as BNP Paribas Peregrine (on behalf of the Underwriters) may agree but in any case not later than 15th October, 2003) and (ii) certain other conditions set out in the Underwriting Agreement, the Public Offer Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related

UNDERWRITING

application forms, for the Public Offer Shares now being offered and which are not taken up under the Public Offer, and the Placing Underwriters have severally agreed to subscribe or procure subscribers, or to purchase or procure purchasers, on the terms and conditions of this prospectus, for the Placing Shares now being offered.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares will be subject to termination by notice in writing from BNP Paribas Peregrine (for itself and on behalf of the Underwriters) if any of the following events occur prior to 10:00 a.m. on the business day immediately preceding the date on which dealings in the H Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on 24th September, 2003):

- (1) there has come to the notice of BNP Paribas Peregrine:
 - (a) that any statement, reasonably considered by BNP Paribas Peregrine to be material, contained in this prospectus and/or the relevant application forms in relation to the Share Offer was, when it was issued, or has become, untrue, incorrect or misleading in any material respect; or
 - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom reasonably considered by BNP Paribas Peregrine to be material to the Share Offer; or
 - (c) any material breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than those undertaken by the Underwriters); or
 - (d) any adverse change in the business or in the financial or trading position of any member of the Group which is reasonably considered by BNP Paribas Peregrine as material in the context of the Share Offer; or
 - (e) any breach, reasonably considered by BNP Paribas Peregrine to be material, of any of the warranties under the Underwriting Agreement;
- (2) there shall develop, occur, exist or come into effect:
 - (a) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God

UNDERWRITING

or interruption or delay in transportation) which in the reasonable opinion of BNP Paribas Peregrine has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

- (b) any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions, issues (including any epidemic such as the outbreak of the severe acute respiratory syndrome) and matters and/or disaster (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange) and if in the reasonable opinion of BNP Paribas Peregrine any such change or disaster would materially and adversely affect the Share Offer; or
- (c) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdictions relevant to any member of the Group and if in the reasonable opinion of BNP Paribas Peregrine any such new law or change materially and adversely affects or could reasonably be expected to materially and adversely affect the business, financial or other condition or prospects of the Group taken as a whole; or
- (d) the imposition of economic sanctions or travelling restrictions (including any quarantine requirements imposed as a result of the epidemic of severe acute respiratory syndrome), in whatever form, directly or indirectly, by, or for the U.S. or by the European Union (or any member thereof) on Hong Kong or the PRC if in the reasonable opinion of BNP Paribas Peregrine any such imposition would make it inadvisable or inexpedient to proceed with the Share Offer; or
- (e) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdictions relevant to any member of the Group if, in the reasonable opinion of BNP Paribas Peregrine, any such change or development materially and adversely affects or could reasonably be expected to materially and adversely affect the business, financial or other condition or prospects of the Group taken as a whole; or
- (f) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or

UNDERWRITING

- (g) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or
- (h) any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or
- (i) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group,

which in the sole opinion of BNP Paribas Peregrine (1) is or will or could reasonably be expected to have an adverse effect on the business, financial or other condition or prospects of the Company or the Group or any member of the Group; or (2) has or will have or could reasonably be expected to have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or (3) makes it inadvisable or inexpedient for the Share Offer to proceed.

Undertakings

The Company has undertaken to the Underwriters in the Underwriting Agreement that, except pursuant to the Share Offer and the Over-allotment Option or with the prior written consent of BNP Paribas Peregrine (on behalf of the Underwriters) and only after the consent of the relevant PRC authorities (if so required) has been obtained, and unless in compliance with the requirements of the Listing Rules, it will not allot or issue, or agree to allot or issue, Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options, warrants or other rights to subscribe for or convertible or exchangeable into Shares or other securities of the Company or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so during the six months immediately following the date on which dealings in the H Shares commence on the Stock Exchange and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six months period after the date on which dealings in the H Shares commence on the Stock Exchange, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

UNDERWRITING

Each of ZCSU and Holding Company has undertaken to the Stock Exchange and the Company that:

- (a) within the six months from the date on which dealings in the H Shares first commence on the Stock Exchange, it shall not dispose of (or, in the case of ZCSU, shall procure that Holding Company will not dispose of) any of the Shares beneficially owned by Holding Company; and
- (b) within the six months from the date on which the period referred to in paragraph (a) above expires, it shall not dispose of (or, in the case of ZCSU, shall procure that Holding Company will not dispose of) any of the Shares beneficially owned by Holding Company if, immediately following such disposal, ZCSU and Holding Company would cease to be controlling shareholders (as defined in the Listing Rules) of the Company.

Holding Company has also undertaken to the Stock Exchange and the Company that within the 12 months from the date on which dealings in the H Shares first commence on the Stock Exchange, it shall:

- (i) when it pledges/charges any Shares beneficially owned by it, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and
- (ii) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (i) and (ii) above by Holding Company and disclose such matters by way of a press announcement.

Underwriting Commission

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Offer Shares (including H Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commission, and the Sponsor will in addition receive a financial advisory fee and a documentation fee in relation to the Share Offer. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, the investor compensation levy, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to be about HK\$81.1 million in aggregate (based on an Offer Price of HK\$7.35 per H Share, being the mid-point of the stated range of the Offer Price of between HK\$6.15 and HK\$8.55 per H Share and the assumption that the Over-allotment Option is not exercised) is to be borne by the Company.

UNDERWRITING

Underwriters' interests in the Company

Other than pursuant to the Underwriting Agreement, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Over-allotment Option

The Company has granted to BNP Paribas Peregrine the Over-allotment Option exercisable within 30 days after the date of this prospectus to require the Company to issue up to an additional 37,465,500 H Shares, solely to cover over-allocations in the Placing, if any, in the Share Offer.

STRUCTURE OF THE SHARE OFFER

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$8.55 and is expected to be not less than HK\$6.15 per Offer Share. Based on the maximum Offer Price of HK\$8.55 per Offer Share, plus 1% brokerage fee, 0.005% SFC transaction levy (per side), 0.002% investor compensation levy (per side) and 0.005% Stock Exchange trading fee (per side), one board lot of 500 H Shares will amount to a total of HK\$4,318.26.

The Offer Price is expected to be determined by the Company and BNP Paribas Peregrine (on behalf of the Underwriters) on or before 9:00 a.m. on 19th September, 2003 (Hong Kong time), or such later date as may be agreed by the Company and BNP Paribas Peregrine but in any event no later than 2:00 p.m. on 20th September, 2003 (Hong Kong time).

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, BNP Paribas Peregrine (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the latest day for lodging applications. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the latest day for lodging applications under the Public Offer cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. If applications for Public Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Offer Price is not agreed between the Company and BNP Paribas Peregrine (on behalf of the Underwriters) before the Price Determination Time (or such later day as agreed), the Share Offer will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Share Offer will be conditional upon:

- (i) the Listing Committee of the Stock Exchange granting a listing of and permission to deal in the H Shares (including the additional H Shares to be issued pursuant to the exercise of the Over-allotment Option); and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by BNP Paribas Peregrine on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

STRUCTURE OF THE SHARE OFFER

in each case on or before 23rd September, 2003 or such later date as BNP Paribas Peregrine may agree with the Company not being later than 15th October, 2003. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section “How to apply for H Shares” below. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

OFFER MECHANISM — BASIS OF ALLOCATION OF H SHARES

The Share Offer

The Share Offer consists of the Placing and the Public Offer. The 249,770,000 H Shares initially offered will comprise 224,793,000 H Shares being offered under the Placing and 24,977,000 H Shares being offered under the Public Offer. The 249,770,000 H Shares being offered under the Share Offer will represent about 32.00% of the Company’s enlarged share capital immediately after completion of the Share Offer (without taking into account exercise of the Over-allotment Option).

Subject to possible reallocation on the basis set forth below, 24,977,000 H Shares, representing 10% of the total number of H Shares initially being offered under the Share Offer, will be offered to the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 249,770,000 H Shares offered pursuant to the Share Offer, 224,793,000 H Shares, representing 90% of the total number of H Shares initially being offered under the Share Offer, will be placed with professional and institutional investors in Hong Kong, the United States, Europe and elsewhere under the Placing. The Placing Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S, and in the United States to qualified institutional buyers, as defined in and in reliance on, Rule 144A.

In connection with the Share Offer, the Company has granted to BNP Paribas Peregrine the Over-allotment Option which is exercisable at any time within 30 days from the date of issue of this prospectus. Pursuant to the Over-allotment Option, the Company may be required to issue up to an aggregate of 37,465,500 additional H Shares (representing 15% of the number of H Shares initially being offered under the Share Offer) to cover over-allocations in the Placing. BNP Paribas Peregrine may also cover over-allocations in the Placing by purchasing H Shares in the secondary market or by a combination of purchases in the secondary market and the exercise, in part or in full, of the Over-allotment Option. The number of H shares that may be over-allocated will not exceed the maximum number of H Shares that may be issued under the Over-allotment Option. Any such secondary

STRUCTURE OF THE SHARE OFFER

market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, on completion of the Share Offer, the H Shares will represent about 35.11% of the Company's enlarged issued share capital.

If BNP Paribas Peregrine decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the Placing. The Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the H Shares on the Stock Exchange.

The levels of indication of interest in the Placing and the basis of allotment and the results of application under the Public Offer are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before 23rd September, 2003.

The net proceeds from the Share Offer, after deducting commissions and expenses and assuming an Offer Price of HK\$7.35 per H Share (being the mid-point of the stated range of the Offer Price between HK\$6.15 to HK\$8.55 per H Share) and that the Over-allotment Option is not exercised at all, are estimated to be about HK\$1,754.7 million. If the Over-allotment Option is exercised in full, the Company would receive additional net proceeds (after deducting commissions and expenses attributable to the exercise of the Over-allotment Option) of about HK\$268.4 million.

The Placing

The Company is initially offering 224,793,000 Placing Shares, representing 90% of the total number of H Shares initially being offered in the Share Offer, for subscription by way of the Placing. The Placing is fully underwritten by the Placing Underwriters, subject to the pricing agreement and the other terms and conditions of the Underwriting Agreement.

The Placing Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring Placing Shares in the Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as "book building". In Hong Kong, retail investors should apply for H Shares in the Public Offer, as retail investors applying for Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any Placing Shares.

STRUCTURE OF THE SHARE OFFER

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its H Shares after the Listing. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

If the Public Offer is not fully subscribed, BNP Paribas Peregrine may reallocate all or any unsubscribed H Shares originally included in the Public Offer to the Placing.

The Placing Underwriters or selling agents nominated by the Placing Underwriters shall, on behalf of the Company, conditionally place the Placing Shares with professional and institutional investors in Hong Kong, the United States (pursuant to Rule 144A and Regulation S), Europe and other regions. The placing of the Placing Shares shall be subject to the offering restrictions set out under the section “Information about this prospectus and the Share Offer”.

The Placing is conditional on the same conditions as set out in the section “Conditions” above. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of the clawback arrangement referred to in the section “The Public Offer” below, the exercise of the Over-allotment Option and any reallocation of unsubscribed H Shares originally included in the Public Offer.

The Public Offer

The Company is initially offering 24,977,000 Public Offer Shares, representing 10% of the total number of H Shares initially being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The Public Offer Shares are being offered at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Underwriting Agreement.

The total number of H Shares available for subscription under the Public Offer (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The H Shares in pool A will be allocated on an equitable basis to applicants who have applied for H Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) or less. The H Shares in pool B will be allocated on an equitable basis to applicants who have applied for H Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If H Shares in one (but not both) of the pools are undersubscribed, the surplus H Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

STRUCTURE OF THE SHARE OFFER

Applicants can only receive an allocation of H Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of H Shares originally allocated to each pool (i.e., 12,488,500 H Shares) are liable to be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not received any H Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the H Shares between the Placing and the Public Offer is subject to adjustment. If the number of H Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of H Shares initially available for subscription under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available for subscription under the Public Offer will increase to 74,931,000 H Shares, representing 30% of the H Shares initially available for subscription under the Share Offer. If the number of H Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of H Shares initially available for subscription under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of H Shares available for subscription under the Public Offer will be 99,908,000 H Shares, representing 40% of the H Shares initially available for subscription under the Share Offer. If the number of H Shares validly applied for under the Public Offer represents 100 times or more the number of H Shares initially available for subscription under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of H Shares available for subscription under the Public Offer will increase to 124,885,000 H Shares, representing 50% of the H Shares initially available for subscription under the Share Offer. In each such case, the additional H Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of H Shares allocated to the Placing will be correspondingly reduced.

In addition, if the Public Offer is not fully subscribed, BNP Paribas Peregrine in its discretion may reallocate all or any unsubscribed H Shares originally included in the Public Offer to the Placing.

BNP Paribas Peregrine is the global co-ordinator and lead manager of the Public Offer which is underwritten at the Offer Price by the Public Offer Underwriters, on and subject to the terms and conditions of the Underwriting Agreement.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this could, where

STRUCTURE OF THE SHARE OFFER

appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

Stabilisation and over-allotment

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the stabilisation price will not exceed the initial public offer price. In other jurisdictions, the stabilisation price may or may not be higher than the initial public offer price.

In connection with the Share Offer, BNP Paribas Peregrine may over-allocate H Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, BNP Paribas Peregrine may exercise the Over-allotment Option no later than 30 days after the date of this prospectus or make (or agree, offer or attempt to make) open-market purchases in the secondary market. BNP Paribas Peregrine may also sell or agree to sell any H Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. However, there is no obligation on BNP Paribas Peregrine to conduct any such stabilising action which, if taken, may be discontinued at any time at the absolute discretion of BNP Paribas Peregrine. The number of H Shares over-allocated will not be greater than the maximum number of H Shares which may be issued upon exercise of the Over-allotment Option, being 37,465,500 H Shares, which is 15% of the H Shares initially available for subscription under the Share Offer.

BNP Paribas Peregrine may, in connection with the stabilising action, maintain a long position in the H Shares. The size of the long position, and the time period for which BNP Paribas Peregrine will maintain such a position is at the discretion of BNP Paribas Peregrine and is uncertain. In the event that BNP Paribas Peregrine liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the commencement of trading of the Offer Shares after this prospectus is issued and the Offer Price is announced and ends on the 30th day after the last day for the lodging of applications under the Share Offer. The stabilising period is expected to expire on 18th October, 2003, and that after this date, when no further stabilising action may be taken, demand for the H Shares, and therefore its price, could fall.

STRUCTURE OF THE SHARE OFFER

Investors should be aware that the price of the H Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

Listing on any other stock exchange

The Directors are not considering any listing of the Company on any other overseas stock exchange. The Company has not submitted any application nor obtained any approval for the listing of the Shares. As a result, at present, Domestic Shares of the Company cannot be traded in any stock exchange.

HOW TO APPLY FOR H SHARES

1. METHODS TO APPLY FOR PUBLIC OFFER SHARES

You may apply for Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** application form; or
- **electronically** instructing HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE** application forms

Use a **WHITE** application form if you want the Public Offer Shares to be registered in your own name.

(b) **YELLOW** application forms

Use a **YELLOW** application form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** application form, you may **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR H SHARES

3. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** application form and a prospectus from:

Any participant of the Stock Exchange

or

BNP Paribas Peregrine Capital Limited

36th Floor, Asia Pacific Finance Tower
3 Garden Road, Central
Hong Kong

BOCI Asia Limited

35/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

China Southern Securities (Hong Kong) Limited

Room 2801, 28/F, The Center
99 Queen's Road Central
Hong Kong

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

Kim Eng Securities (Hong Kong) Limited

Room 1901, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Shenyin Wanguo Capital (H.K.) Limited

28/F, Citibank Tower, Citibank Plaza
3 Garden Road
Central, Hong Kong

CM-CCS Securities Limited

26/F, Worldwide House
19 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR H SHARES

SinoPac Securities (Asia) Limited

11/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Tai Fook Securities Company Limited

25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

or any of the following 11 branches of Standard Chartered Bank:

Branches	Address
<i>Hong Kong Island:</i>	
Central Branch	Shop 16, G/F and LG/F, New World Tower, 16-18 Queen's Road Central
Des Voeux Road Branch	Standard Chartered Bank Building, 4-4a Des Voeux Road Central
88 Des Voeux Road Branch	88 Des Voeux Road Central
Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
Taikoo Place Branch	G/F, 969 King's Road, Quarry Bay
Hennessy Road Branch	399 Hennessy Road, Wanchai
<i>Kowloon:</i>	
Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
Mongkok Bank Centre Branch	Bank Centre, 630-636 Nathan Road, Mongkok
Tsimshatsui Branch	10 Granville Road, Tsimshatsui
<i>New Territories:</i>	
Tsuen Wan Branch	Basement 1/F, Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan
Shatin Centre Branch	Shop 32C, Level 3, Shatin Centre, 2-16 Wang Pok Street, Shatin

HOW TO APPLY FOR H SHARES

- (b) You can collect a **YELLOW** application form and a prospectus from:
- (1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
 - (2) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.
- (c) Your broker may have the application forms available.

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) **WHITE or YELLOW application forms**

Completed **WHITE** or **YELLOW** application forms, with cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 18th September, 2003, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** application form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed "Where to collect the application forms" at the following times:

Monday, 15th September, 2003 — 9:00 a.m. to 4:00 p.m.
Tuesday, 16th September, 2003 — 9:00 a.m. to 4:00 p.m.
Wednesday, 17th September, 2003 — 9:00 a.m. to 4:00 p.m.
Thursday, 18th September, 2003 — 9:00 a.m. to 12:00 noon

(b) **Electronic application instructions to HKSCC**

CCASS Participants should input electronic application instructions via CCASS at the following times:

Monday, 15th September, 2003 — 9:00 a.m. to 7:00 p.m.
Tuesday, 16th September, 2003 — 9:00 a.m. to 7:00 p.m.
Wednesday, 17th September, 2003 — 9:00 a.m. to 7:00 p.m.
Thursday, 18th September, 2003 — 9:00 a.m. to 12:00 noon

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 18th September, 2003 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR H SHARES

(c) **Application lists**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 18th September, 2003, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(d) **Effect of bad weather conditions on the opening of the application lists**

The application lists will be open between 11:45 a.m. and 12:00 noon on Thursday, 18th September, 2003, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 18th September, 2003, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong. **Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- Obtain a **WHITE** or **YELLOW** application form.
- You should read the instructions in this prospectus and the relevant application form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your application form.
- Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$8.55 per Public Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.005% (per side), the investor compensation levy of 0.002% (per side) and the Stock Exchange trading fee of 0.005% (per side). The table below sets out the total amount payable for the specified number of Public Offer Shares.

HOW TO APPLY FOR H SHARES

Each application must be in one of the numbers set out in the table below:

Table of multiples and payments					
No. of H Shares applied for	Amount payable on application HK\$	No. of H Shares applied for	Amount payable on application HK\$	No. of H Shares applied for	Amount payable on application HK\$
500	4,318.26	6,000	51,819.17	25,000	215,913.16
1,000	8,636.53	7,000	60,455.68	30,000	259,095.79
1,500	12,954.79	8,000	69,092.21	35,000	302,278.41
2,000	17,273.06	9,000	77,728.74	40,000	345,461.04
2,500	21,591.32	10,000	86,365.27	45,000	388,643.68
3,000	25,909.57	12,000	103,638.31	50,000	431,826.31
3,500	30,227.85	14,000	120,911.37	60,000	518,191.56
4,000	34,546.10	16,000	138,184.42	70,000	604,556.83
4,500	38,864.36	18,000	155,457.48	80,000	690,922.08
5,000	43,182.64	20,000	172,730.52	90,000	777,287.35
				100,000*	863,652.60

* Thereafter in multiples of 100,000 H Shares up to 12,488,500 H Shares, being the total number of H Shares originally allocated to each pool A and pool B and the amount payable on such application should be HK\$107,857,254.94

- (d) Complete the application form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the application form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and the Sponsor (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each application form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the application form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;

HOW TO APPLY FOR H SHARES

- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name in the application form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to “Horsford Nominees Limited — Weiqiao Offer”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker’s cashier order and the name on the application form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- be made payable to “Horsford Nominees Limited — Weiqiao Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) Lodge your application form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 4(a) and 3(a) above.
- (g) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “How many applications you can make” in the section headed “Terms and conditions of the Public Offer”.
- (h) In order for the **YELLOW** application forms to be valid:
 - If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and

HOW TO APPLY FOR H SHARES

- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your full name and your Hong Kong Identity Card number; and
 - you must insert your CCASS Participant I.D. and sign in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. and the authorised signatory or signatories of the CCASS Investor Participant's stock account must sign in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the presence of the authorised signatory or signatories of the CCASS Investor Participant's stock account in the appropriate box.

The signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** application form should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory or signatories (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

- (i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each application form in the box marked "For nominees" an identification number for each beneficial owner.

HOW TO APPLY FOR H SHARES

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

If the Offer Price as finally determined is less than HK\$8.55 per H Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refund are set out below in the paragraph headed “Refund of your money — additional information” in the section headed “Terms and conditions of the Public Offer” in this prospectus.

7. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give electronic application instructions via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for you if you come to:

Customer Service Centre of HKSCC
at Upper Ground Floor,
V-Heun Building,
128-140 Queen’s Road Central,
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Public Offer Shares.

HOW TO APPLY FOR H SHARES

- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the Hong Kong share registrar.
- (e) you may give **electronic application** instructions in respect of a minimum of 500 Public Offer Shares. Each **electronic application** instruction in respect of more than 500 Public Offer Shares must be in one of the multiples set out in the table in the application form.
- (f) Where a **WHITE** application form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Public Offer Shares:
 - (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** application form or this prospectus; and
 - (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed “Effect of making any application” in the section headed “Terms and conditions of the Public Offer”.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.
- (h) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” in the section headed “Terms and conditions of the Public Offer” applies to any personal data held by the Sponsor, the Company and the Hong Kong share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR H SHARES

Warning

Application for Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, the Global Co-ordinator and any parties involved in the Share Offer take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) submit the **WHITE** or **YELLOW** application form (as appropriate); or
- (b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 18th September, 2003 or such later time as described under the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" above.

8. RESULTS OF ALLOCATIONS

The results of allocations of the Public Offer Shares under the Public Offer, including applications made under **WHITE** and **YELLOW** application forms and by giving electronic application instructions to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offer Shares successfully applied for, are expected to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before 23rd September, 2003.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

1. GENERAL

- (a) If you apply for the Public Offer Shares in the Public Offer, you will be agreeing with the Company and the Global Co-ordinator (on behalf of the Public Offer Underwriters) as set out below.
- (b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offer, the paragraph headed “The Public Offer” in the section headed “Structure of the Share Offer”, and in the section headed “How to Apply for H Shares” and the terms and conditions set out in the relevant application form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE PUBLIC OFFER SHARES

- (a) You offer to purchase from the Company at the Offer Price the number of the Public Offer Shares indicated in your application form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant application form.
- (b) For applicants using application forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your application form.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed “If your application for the Public Offer Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 23rd September, 2003.
- (b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on Tuesday, 23rd September, 2003 in the manner described in the paragraph headed “Results of allocations” in the section headed “How to Apply for H Shares”.
- (c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Share Offer are satisfied or the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure of the Share Offer”.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

4. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a **nominee**, in which case you may make an application as a nominee by: (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one application in your own name on behalf of different beneficial owners. In the box on the application form marked “For nominees” you must include:

- an account number; or
- another identification number

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and other joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** application form or by giving **electronic** application instructions to HKSCC;
- apply on one **WHITE** or **YELLOW** application form (whether individually or jointly with others) or by giving **electronic** application instructions to HKSCC to apply for more than 50% of the H Shares initially available for subscription under the Public Offer (that is, to apply for more than 12,488,500 H Shares); or
- receive any Placing Shares under the Placing.

(c) **All** of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and: (i) the only business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

TERMS AND CONDITIONS OF THE PUBLIC OFFER

5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorise** the Company, the Sponsor and/or the Global Co-ordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association of the Company and otherwise to give effect to the arrangements described in this prospectus and the relevant application form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Articles of Association;
 - **represent** and **warrant** that you understand that the H Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the application form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, BNP Paribas Peregrine and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
 - (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
 - (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC, and that you are duly authorised to sign the application form or to give electronic application instruction as that other person's agent;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by the Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, BNP Paribas Peregrine and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the H Shares applied for, or any lesser number allocated to you under the application;
- **authorise** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application form by ordinary post at your own risk to the address stated on your application form (except that if you have applied for 500,000 Public Offer Shares or more and have indicated in your application form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on 23rd September, 2003 (Hong Kong time) from Computershare Hong Kong Investor Services Limited;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, BNP Paribas Peregrine and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- **agree** with the Company, each shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- **agree** with the Company and each shareholder of the Company that H Shares are freely transferable by the holders thereof;
- **authorise** the Company to enter into a contract on behalf of you with each director, supervisor and officer of the Company whereby such directors, supervisors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association;
- **confirm** that you are aware of the restrictions on offering of the H Shares described in this prospectus; and
- **understand** that these declarations and representations will be relied upon by the Company and BNP Paribas Peregrine in deciding whether or not to allocate any Public Offer Shares in response to your application.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (b) If you apply for the Public Offer Shares using a **YELLOW** application form, in addition to the confirmations and agreements referred to in (a) above you **agree** that
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the application form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Public Offer Shares at your own risk to the address on your application form by ordinary post **or to make available the same for your collection**;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in the prospectus and the application forms;
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:
- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;
 - **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank

TERMS AND CONDITIONS OF THE PUBLIC OFFER

account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$8.55 per H Share, refund the appropriate portion of the application money by crediting your designated bank account;

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted electronic application instructions on your behalf;
 - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given electronic application instructions or any lesser number;
 - (if the electronic application instructions are given for your own benefit) **declare** that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have given only one set of electronic application instructions for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
 - **understand** that the above declaration will be relied upon by the Company and BNP Paribas Peregrine in deciding whether or not to make any allocation of the Public Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;
 - **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your electronic application instructions and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;
- **agree** that the Company, BNP Paribas Peregrine and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus;
- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to BNP Paribas Peregrine, the Company, the Hong Kong share registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;
- **agree** that you cannot revoke electronic application instructions before 15th October, 2003, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 15th October, 2003, except by means of one of the procedures referred to in this prospectus. However, you may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Public Offer Shares.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

You should note the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an application form or submitting electronic application instructions to HKSCC, you agree that you cannot revoke your application before 15th October, 2003. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form or submit your electronic application instructions to HKSCC. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 15th October, 2003 except by means of one of the procedures referred to in the prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

However, you may revoke your application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for the prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for the prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) **If the allocation of Public Offer Shares is void:**

Your allocation of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) **If you make applications under the Public Offer as well as the Placing:**

By filling in any of the application forms or giving application instructions to HKSCC electronically, you agree not to apply for Placing Shares under the Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer.

(d) **If the Company, the Global Co-ordinator or their respective agents exercise their discretion:**

The Company, the Global Co-ordinator or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) **If:**

- your application is a multiple or a suspected multiple application;
- your application form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive H Shares under the Placing;
- if you apply for more than 50% of the Public Offer Shares initially being offered in the public for subscription;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof; or

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (f) If you are giving **electronic** application instructions to HKSCC to apply for Public Offer Shares on your behalf, you will also not be allocated any Public Offer Shares if HKSCC Nominees's application is not accepted.

7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

- (a) **If you are applying using a WHITE application form and you elect to receive any share certificate(s) in your name:**

- Refund cheques for these applicants who apply for less than 500,000 H Shares are expected to be despatched on or before 23rd September, 2003 to the same address as that for share certificate(s).
- Applicants who apply on **WHITE** application forms for 500,000 H Shares or more under the Public Offer and have indicated in their application forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong share registrar may collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 23rd September, 2003.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong share registrar.
- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms.

- (b) **If: (i) you are applying on a YELLOW application form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the application form or electronically, as the case may be), at the close of business on Tuesday, 23rd September, 2003 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW application form:**

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW application form:**

The Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Results of allocations" in the section headed "How to apply for H Shares", on Tuesday, 23rd September, 2003. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 23rd September, 2003 or such other date as shall be determined by HKSCC or HKSCC Nominees. On Wednesday, 24th September, 2003 (being the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also mail to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC:**

The Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed "Results of allocations" in the section headed "How to apply for H Shares", on Tuesday, 23rd September, 2003. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 23rd September, 2003 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 23rd September, 2003. On Wednesday, 24th September, 2003 (being the next day following the credit of the Public Offer Shares to your stock account), HKSCC will also mail to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:
- your application is not successful, in which case the Company will refund your application money together with brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest; and
 - the conditions of Share Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer — Conditions".
- (b) If you apply on **YELLOW** application form for 500,000 H Shares or more under the Public Offer, you may collect your refund cheque (if any) in person from the Hong Kong share registrar on Tuesday, 23rd September, 2003. The procedure for

TERMS AND CONDITIONS OF THE PUBLIC OFFER

collection of refund cheques for **YELLOW** application form applicants is the same as that for **WHITE** application form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Public Offer Shares is successful (in whole or in part)” in this section.

- (c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Tuesday, 23rd September, 2003.
- (d) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your application form.
- (e) Refund cheques are expected to be despatched on Tuesday, 23rd September, 2003. The Company intends to make special efforts to avoid undue delays in refunding money.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20th December, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of the Company and the Hong Kong share registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong share registrar immediately of any inaccuracies in the personal data supplied.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) **Purposes**

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong share registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by the Company and the Hong Kong share registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong share registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm

TERMS AND CONDITIONS OF THE PUBLIC OFFER

the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Hong Kong share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving electronic application instructions to HKSCC, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

10. MISCELLANEOUS

(a) Commencement of dealings in the H Shares

- Dealings in the H Shares on the Stock Exchange are expected to commence on Wednesday, 24th September, 2003.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- H Shares will be traded in board lots of 500 H Shares.
- Any H share certificates in respect of Public Offer Shares collected or received by successful applicants will not be valid if the Share Offer is terminated in accordance with the terms of the Underwriting Agreement.

(b) **H Shares will be eligible for admission into CCASS**

- If the Stock Exchange grants the listing of and permission to deal in the H Shares and the stock admission requirements of HKSCC are complied with, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- All necessary arrangements have been made for the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Ernst & Young, Certified Public Accountants, Hong Kong, the auditors of and the reporting accountants to the Company.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

15 September 2003

The Directors
Weiqiao Textile Company Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Weiqiao Textile Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2000, 2001 and 2002 and the three-month period ended 31 March 2003 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 15 September 2003 (the “Prospectus”).

The Company was incorporated as a joint stock company with limited liability in Zouping County, Shandong Province, the People’s Republic of China (the “PRC”) on 6 December 1999 under the original name of Shandong Weiqiao Textile Company Limited (“Shandong Weiqiao”). Through a series of transactions as described more fully in the Business section headed “Reorganisation” of the Prospectus (the “Reorganisation”), Shandong Weiqiao became the holding company of the Group. A summary of the transactions undertaken by the Company during the Relevant Periods relating to the Reorganisation is set out below:

- (1) In May 2001, the Company acquired from its immediate holding company, Shandong Weiqiao Textile Group Company Limited (“Holding Company”), the operating assets and related liabilities of the four fabric weaving factories located in the First Production Area for a total sum of Renminbi (“RMB”) 267,031,000, satisfied by assumption of short term bank loans of approximately RMB237 million and cash settlement of RMB30 million.
- (2) In July 2001, the Company established Weihai Weiqiao Textile Company Limited (“Weihai Weiqiao”) with Weihai Civil Aviation Industrial Company Limited (“WCAI”). The registered capital of Weihai Weiqiao is RMB148,000,000 and is owned as to 87.2% and 12.8% by the Company and WCAI, respectively.

- (3) Pursuant to a shareholders' resolution dated 15 July 2002, the registered capital of the Company was increased to RMB530,770,000 of RMB1.00 each. 328,730,000 shares were issued to Holding Company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities by Holding Company on 30 September 2002. The net assets injected by Holding Company amounted to RMB785,667,466, according to the valuation performed by Shandong Zheng Yuan He Xin Certified Public Accountants Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 28 June 2002.
- (4) In September 2002, Holding Company, Itochu Corporation, a company incorporated in Japan, and Profit Rich Company, a company registered in Hong Kong, entered into a Sino-foreign equity joint venture contract to jointly establish Shandong Luteng Textile Company Limited ("Luteng Textile") with registered capital of US\$9,790,000. According to the joint venture contract, Holding Company was to contribute US\$7,340,000 in the form of plant and machinery, accounting for 75% of the registered capital of Luteng Textile, whilst Itochu Corporation and Profit Rich Company were to contribute cash of US\$1,000,000 and technology rights of US\$1,450,000, respectively, into Luteng Textile, representing 10.2% and 14.8% of the registered capital of Luteng Textile, respectively.

Prior to the agreed time when the parties were to make their respective contributions in accordance with the joint venture contract, Holding Company transferred all of its rights and obligations under the joint venture contract to the Company. Such transfer had obtained the approval and consent of the board of Luteng Textile and the Foreign Economic and Trade Cooperation Bureau of Binzhou City of Shandong Province. By 20 October 2002, the Company, Itochu Corporation and Profit Rich Company had each made their respective contributions towards the registered capital of Luteng Textile in accordance with the provisions of the joint venture contract.

- (5) On 18 November 2002, the Company acquired from Holding Company and Binzhou Weiqiao Textile Company Limited (renamed as Binzhou Weiqiao Property Company Limited on 2 June 2003) ("Binzhou Weiqiao"), a related company of the Company, 90% and 1% of equity interests, respectively, in Binzhou Weiqiao Technology Industrial Park Company Limited ("Industrial Park") at the respective consideration of RMB90,000,000 and RMB1,000,000.
- (6) On 31 March 2003, the Company increased its equity interests in Industrial Park from 91% to 97% by the injection of fixed assets amounting to RMB223,443,780, according to the valuation performed by Shandong Huanghe Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 11 April 2003. Of this fixed asset injection, an amount of RMB200,000,000 was credited by Industrial Park as new capital injection by the Company and RMB23,443,780 was credited by Industrial Park as an amount due to the Company.

The Group is principally engaged in the production and sale of cotton yarns, grey fabrics and denims in the PRC and overseas. The Company changed to its present name, Weiqiao Textile Company Limited, on 19 February 2003.

APPENDIX I**ACCOUNTANTS' REPORT**

At the date of this report, the Company had direct interests in the following subsidiaries and joint venture. All of these entities are private companies, which have substantially similar characteristics to a private company incorporated in Hong Kong.

Company name	Place and date of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of equity interests attributable to the Group	Principal activities
<i><u>Subsidiaries</u></i>				
Weihai Weiqiao	Weihai, PRC 25 July 2001	RMB148,000,000	87.2	Production and sale of cotton yarns and fabrics
Industrial Park	Binzhou, PRC 26 November 2001	RMB300,000,000	97	Production and sale of cotton yarns and fabrics
<i><u>Joint venture</u></i>				
Luteng Textile	Zouping, PRC 12 September 2002	US\$9,790,000	75	Production and sale of polyester yarns and related products

The financial statements of the Company for the years ended 31 December 2000 and 2001, which were prepared in accordance with the accounting principles and financial regulations applicable to the PRC enterprises ("PRC Accounting Regulations"), were audited by Shandong Huide Certified Public Accountants Ltd., certified public accountants registered in the PRC. The financial statements of the Company for the year ended 31 December 2002, which were prepared in accordance with PRC Accounting Regulations, were audited by Zouping Jianxin Certified Public Accountants Ltd., certified public accountants registered in the PRC.

No audited statutory financial statements have been prepared by Weihai Weiqiao and Industrial Park since their respective dates of incorporation.

The financial statements of Luteng Textile for the period from 12 September 2002 (date of establishment) to 31 December 2002, which were prepared in accordance with PRC Accounting Regulations, were audited by Shandong Huanghe Certified Public Accountants Ltd., certified public accountants registered in the PRC.

We have not acted as auditors of any of the companies now comprising the Group. For the purpose of this report, the directors of the Company have prepared the Company's and the Group's accounts for each of the Relevant Periods, or from the respective dates of their incorporation/establishment or dates of acquisition where this is a shorter period, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HK GAAP accounts"). The HK GAAP accounts have been audited by us in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants (the "HKSA").

The financial information of the consolidated results, consolidated statements of changes in equity and consolidated cash flows of the Group for the Relevant Periods and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2000, 2001 and 2002, and 31 March 2003 (the "Financial Information") set out in this report has been prepared based on the audited HK GAAP accounts. We have examined the Financial Information in accordance with Auditing Standards and Guidelines issued by the HKSA and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The directors of the respective companies now comprising the Group are responsible for preparing accounts which give a true and fair view. The directors of the Company are responsible for preparing the HK GAAP accounts and the Financial Information which give a true and fair view. In preparing these accounts and the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2000, 2001 and 2002 and 31 March 2003 and of the Group's consolidated results and cash flows for each of the Relevant Periods.

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Information set out in this report is prepared under the historical cost convention. The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report which conform with HK GAAP, are as follows:

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the companies now comprising the Group after the elimination of all material inter-company transactions. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Minority interests represent the interests of outside shareholders in the results and net assets of Weihai Weiqiao, Industrial Park and Luteng Textile.

(b) Subsidiaries

A subsidiary is a company, whose financial and operating policies the Company controls directly or indirectly, so as to obtain benefits from its activities. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(c) Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

The Company has unilateral control over the Group's only joint venture company, Luteng Textile, since its incorporation on 12 September 2002.

(d) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life (10 years) of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

(e) Related parties

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

(f) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to profit and loss account in the period in which it arises.

(g) Fixed assets and depreciation

Fixed assets and depreciation are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its 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 asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into consideration the estimated residual value of not more than 5% of cost, as follows:

	Estimated useful life	Yearly depreciation rate
Land and buildings	20-50 years	2.0-4.8%
Machinery and equipment	6-14 years	6.8-15.8%
Motor vehicles	6-10 years	9.5-15.8%

The gain or loss on disposal or retirement of a fixed asset recognised in profit and loss account is the difference between the net proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and properties under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(h) Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit and loss account on the straight-line basis over the lease terms.

(i) Intangible assets

Technology rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

(j) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress, semi-finished goods (which principally comprise cotton yarns) and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling price in the ordinary course of business less any estimated costs to be incurred to completion and disposal.

(l) Cash and cash equivalents

For the purpose of consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(m) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

(n) Income tax

Income tax is provided at rates applicable to entities in the PRC on the income for statutory financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, where the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(p) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statements over the expected useful life of the relevant asset by equal annual instalments.

(q) Retirement benefits scheme

The Company and its subsidiaries participate in defined contribution retirement schemes organised by the local government authorities in the PRC. Employees holding city and township residency are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company and its subsidiaries are required to make contributions to the retirement schemes at a rate of 20% of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the profit and loss account of the Group as they become payable in accordance with the rules of the scheme.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate based on the weighted average of the borrowing costs applicable to the borrowings of the company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, is applied to the expenditure on the individual assets.

(s) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserve section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles grant the directors authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(t) Foreign currency transactions

The companies now comprising the Group are domiciled in the PRC and maintain their books and records in RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into RMB at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

2. CONSOLIDATED RESULTS

The following is a summary of the consolidated results of the Group for the Relevant Periods:

		Year ended 31 December			Three-month period ended
		2000	2001	2002	31 March 2003
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	(a)	1,559,284	2,353,637	4,380,923	1,255,068
Cost of sales		<u>(1,290,790)</u>	<u>(2,007,486)</u>	<u>(3,729,267)</u>	<u>(1,011,738)</u>
Gross profit		268,494	346,151	651,656	243,330
Other revenue	(a)	2,018	23,748	49,303	12,014
Selling and distribution costs		(26,165)	(40,794)	(78,565)	(33,676)
Administrative expenses		(9,490)	(27,212)	(40,189)	(16,227)
Other operating expenses		<u>(11,577)</u>	<u>(9,470)</u>	<u>(19,641)</u>	<u>(4,622)</u>
Profit from operating activities	(b)	223,280	292,423	562,564	200,819
Finance costs	(e)	<u>(16,500)</u>	<u>(46,009)</u>	<u>(101,506)</u>	<u>(29,882)</u>
Profit before tax		206,780	246,414	461,058	170,937
Tax	(f)	<u>(73,057)</u>	<u>(88,977)</u>	<u>(169,627)</u>	<u>(61,765)</u>
Profit before minority interests		133,723	157,437	291,431	109,172
Minority interests	(i)	<u>—</u>	<u>(3,397)</u>	<u>(3,191)</u>	<u>(1,000)</u>
Net profit from ordinary activities attributable to shareholders		<u>133,723</u>	<u>154,040</u>	<u>288,240</u>	<u>108,172</u>
Proposed final dividend	(g)	<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
Earnings per share — basic (RMB)	(h)	<u>0.66</u>	<u>0.76</u>	<u>1.01</u>	<u>0.20</u>

Note: During the Relevant Periods, the Group entered into certain material on-going transactions with its related parties, principally comprising sale or purchase of lint cotton by the Group; supply of electricity and steam power by Holding Company; sale or purchase of cotton yarns, grey fabrics and denims by the Group; and provision of processing services to the Group, details of which are summarised in Section 7 below. The Group is part of a larger group of companies under Zouping County Supply and Marketing Corporation Union ("ZCSU") and has extensive transactions and relationships with members of ZCSU. As such, it is possible that the terms of these transactions are not the same as those that would have been conducted under normal commercial terms with unrelated parties.

Had the above-mentioned material related party transactions been conducted under normal commercial terms by reference to similar transactions conducted with wholly unrelated parties, or insofar as the supply of electricity and steam power is concerned, the terms of the relevant agreements signed with Holding Company for the supply of the same for a term of 10 years commencing 25 August 2003, the directors of the Company expect that it would have had an effect on the Group's overall results of operations for the Relevant Periods. For this reason, the directors of the Company consider that the preparation of a set of unaudited pro forma consolidated results for the Relevant Periods (the "Unaudited Pro Forma Consolidated Results"), as presented in Appendix II of the Prospectus, may be a useful supplement to the Financial Information presented in this report. The Unaudited Pro Forma Consolidated Results are for information purpose only and the notional amounts required for preparing the Unaudited Pro Forma Consolidated Results have not been recorded in the books and records and thus, the financial statements of the companies now comprising the Group for the Relevant Periods.

Notes:

(a) **Turnover and other revenue**

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of turnover and other revenue is as follows:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	2003
				RMB'000
<u>Turnover</u>				
Sale of goods	<u>1,559,284</u>	<u>2,353,637</u>	<u>4,380,923</u>	<u>1,255,068</u>
<u>Other revenue</u>				
Interest income	2,789	10,012	9,340	3,208
Gain/(loss) on sale of raw materials	(1,277)	11,502	29,915	5,058
Negative goodwill recognised	—	—	374	748
Subsidy income	—	431	4,800	820
Others	<u>506</u>	<u>1,803</u>	<u>4,874</u>	<u>2,180</u>
Total other revenue	<u>2,018</u>	<u>23,748</u>	<u>49,303</u>	<u>12,014</u>

APPENDIX I**ACCOUNTANTS' REPORT****(b) Profit from operating activities**

Profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December			Three-month period ended 31 March
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	1,290,790	2,007,486	3,714,416	1,001,287
Staff costs (excluding directors' and supervisors' emoluments)				
Wages, salaries and social security costs	94,015	202,633	325,221	131,963
Retirement benefit contributions	<u>3,287</u>	<u>4,526</u>	<u>6,742</u>	<u>2,128</u>
	<u>97,302</u>	<u>207,159</u>	<u>331,963</u>	<u>134,091</u>
Amortisation of intangible assets	—	—	300	300
Auditors' remuneration	100	150	150	100
Depreciation	27,926	53,422	121,195	62,663
Directors' and supervisors' emoluments (Note d)	236	232	212	341
Exchange losses, net	2,826	1,397	3,585	481
Operating lease expenses	356	14,554	37,163	718
Provision for bad and doubtful debts	6,397	4,120	4,182	—
Provision for inventories	—	—	14,851	10,451
Release of negative goodwill to income	—	—	(374)	(748)
Repairs and maintenance	<u>12,457</u>	<u>57,166</u>	<u>110,599</u>	<u>35,804</u>
Research and development costs included in:				
Wages and salaries	132	207	766	306
Consumption of consumables	<u>50</u>	<u>280</u>	<u>1,104</u>	<u>557</u>
	<u>182</u>	<u>487</u>	<u>1,870</u>	<u>863</u>

(c) Retirement benefits

The aggregate contribution of the Group to retirement benefit schemes were approximately RMB3.3 million, RMB4.6 million, RMB6.8 million and RMB2.2 million for the years ended 31 December 2000, 31 December 2001, 31 December 2002 and for the three-month period ended 31 March 2003, respectively.

(d) **Directors', senior executives' and supervisors' emoluments**

Details of the remuneration of the directors and supervisors are as follows:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	2003 RMB'000
Fees	—	—	—	85
Other emoluments:				
— Salaries, allowances and benefits in kind	211	206	189	227
— Performance related bonus	—	—	—	—
— Retirement benefit contributions	25	26	23	29
	<u>236</u>	<u>232</u>	<u>212</u>	<u>341</u>

No directors or supervisors waived or agreed to waive any emolument for the Relevant Periods.

The remuneration of each of the directors and supervisors (including the five highest paid employees) for each of the Relevant Periods fell within the range of nil to HK\$1,000,000 (equivalent to RMB1,061,000).

The five highest paid individuals in the Group included 2 directors and 3 supervisors, 2 directors and 3 supervisors, 4 directors and 1 supervisor, 4 directors and 1 supervisor for the years ended 31 December 2000, 31 December 2001, 31 December 2002 and for the three-month period ended 31 March 2003, respectively. The emoluments for these directors and supervisors are included in the above disclosures.

The emoluments and designated band of the five highest paid individuals (including directors, supervisors and employees) during the Relevant Periods are as follows:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	2003 RMB'000
Salaries, allowances and benefits in kind	165	162	146	209
Performance related bonus	—	—	—	—
Retirement benefit contributions	19	18	19	25
	<u>184</u>	<u>180</u>	<u>165</u>	<u>234</u>

The remuneration of each of the five highest paid employees for each of the Relevant Periods fell within the range of nil to HK\$1,000,000 (equivalent to RMB1,061,000).

During the Relevant Periods, the Group paid no emoluments to the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(e) **Finance costs**

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	2003
				RMB'000
Interest on bank loans				
wholly repayable within five years	18,092	61,759	104,970	34,682
Less: amount reimbursed by the				
immediate holding company*	(1,592)	(15,750)	(3,464)	—
interest capitalised**	—	—	—	(4,800)
	<u>16,500</u>	<u>46,009</u>	<u>101,506</u>	<u>29,882</u>

* During the Relevant Periods, the Company entered into an arrangement with Holding Company, under which the Company agreed to borrow funds from the banks on behalf of Holding Company and Holding Company agreed to reimburse the Company the interest expenses thereon on an actual basis. The arrangement was terminated in 2002 when the Company fully settled the related outstanding loan balances with the banks in that year. Outstanding loan balances under such arrangement were approximately RMB151 million and RMB220 million as at 31 December 2000 and 31 December 2001, respectively.

** The capitalisation rate adopted for capitalising interests incurred during the three-month period ended 31 March 2003 ranged from 4.325% to 6.372% per annum.

(f) **Tax**

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

Under PRC income tax law, the companies (except for Luteng Textile) within the Group are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC Accounting Regulations.

Being a Sino-foreign joint venture enterprise, Luteng Textile is subject to State CIT rate at 30% and local CIT rate at 3%. As regards State CIT, it is entitled to full exemption from such tax for the first two years and 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. As regards local CIT, the local tax authority has granted it full exemption from such tax commencing from 2002. No provision for CIT has been made as Luteng Textile incurred an operating loss from its date of establishment (12 September 2002) to 31 December 2002, and was approved to enjoy State CIT exemption in full effective from 1 January 2003.

APPENDIX I**ACCOUNTANTS' REPORT**

A reconciliation of income tax expenses applicable to profit before tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate for each of the Relevant Periods was as follows:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	<u>206,780</u>	<u>246,414</u>	<u>461,058</u>	<u>170,937</u>
At PRC statutory CIT rate of 33%	68,237	81,317	152,149	56,409
Non-deductible items	2,709	6,193	12,134	4,532
Non-taxable item	—	—	(1,584)	(271)
Tax exemption	—	—	—	(770)
Others (i)	<u>2,111</u>	<u>1,467</u>	<u>6,928</u>	<u>1,865</u>
Income tax provided	<u>73,057</u>	<u>88,977</u>	<u>169,627</u>	<u>61,765</u>
Effective income tax rate (%)	<u>35.3%</u>	<u>36.1%</u>	<u>36.8%</u>	<u>36.1%</u>

- (i) The amount for the year ended 31 December 2002 was net of a subsidy, determined in accordance with income tax paid in the preceding year, of approximately RMB5.4 million received by a subsidiary of the Company, Weihai Weiqiao, in that year. In the opinion of the directors of the Company, this arrangement was made by the local government, at its discretion, in recognition of the Group's investment in the city and as such, there is no certainty that Weihai Weiqiao will continue to receive the same in the future.

In addition, during the year ended 31 December 2002, Industrial Park made, based on its management accounts for the year, an income tax payment of approximately RMB4.4 million to the relevant local tax bureau. Subsequent to 31 December 2002, Industrial Park was found to have realised a tax loss for the year ended 31 December 2002 and the aforesaid tax payment of approximately RMB4.4 million has yet to be refunded by the relevant local tax bureau as of the date of this report. The directors of the Company are of the view that though the management of Industrial Park is negotiating with the relevant local tax bureau for the refund of the aforesaid tax overpayment, given the relative insignificant amount of such tax overpayment; the inherent uncertainty associated with the outcome of the negotiation and thus, the final realisation of the amount of the refund, the refund of the aforesaid tax overpayment has not been recognised and reflected in the consolidated financial statements of the Group for the year then ended.

The Group did not have any significant unprovided deferred tax in respect of the Relevant Periods.

(g) **Profit appropriations**(1) *Statutory reserve funds*

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile, are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC Accounting Regulations, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

(ii) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile, are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC Accounting Regulations, to the statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

The directors of Weihai Weiqiao resolved to appropriate 10% and 5% of the profit attributable to shareholders for the year ended 31 December 2001, determined in accordance with PRC Accounting Regulations, to the statutory surplus reserve and the statutory public welfare fund, respectively, and the directors of Industrial Park resolved to appropriate 10% and 5% of the profit attributable to shareholders for the year ended 31 December 2002, determined in accordance with PRC Accounting Regulations, to the statutory surplus reserve and the statutory public welfare fund, respectively.

Except as described above, 10% of the profit attributable to shareholders, determined in accordance with PRC Accounting Regulations, were appropriated to each of the statutory surplus reserve and the statutory public welfare fund as approved in resolutions passed by the board of directors of the respective companies during each of the Relevant Periods.

(iii) General reserve fund, employee's bonus and welfare fund and enterprise expansion fund

In accordance with the PRC Joint Venture Law, dividends can be distributed by Luteng Textile after allowance has been made by offsetting any prior years' losses out of the annual statutory net profit after tax, determined in accordance with PRC Accounting Regulations, and allocations to the statutory reserve funds, comprising a general reserve fund, an employee bonus and welfare fund and an enterprise expansion fund. The amount of transfer to the various statutory reserve funds is determined at the discretion of the board of directors of Luteng Textile.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(2) *Dividend*

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Proposed final RMB0.65 per share	—	131,326	—	—

The proposed final dividend for the year ended 31 December 2001 was approved by the Company's shareholders on 15 April 2002.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC Accounting Regulations and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed.

(h) **Earnings per share**

The calculations of basic earnings per share are based on:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Earnings</u>				
Net profit from ordinary activities				
attributable to shareholders used in				
basic earnings per share calculation	133,723	154,040	288,240	108,172

	Number of shares			
	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March 2003
<u>Shares</u>				
Weighted average number of ordinary shares in issue during the year/period used in basic earnings per share calculation	<u>202,040,000</u>	<u>202,040,000</u>	<u>284,897,973</u>	<u>530,770,000</u>

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

(i) **Minority interests**

Pursuant to the minutes of the board of directors' meeting of Weihai Weiqiao dated 2 April 2001, WCAI, which holds 12.8% equity interest in Weihai Weiqiao, was entitled to a fixed return at a rate of 20% on its capital contribution to Weihai Weiqiao for the two-year period ended 31 December 2002. Accordingly, the net results of operations of Weihai Weiqiao attributable to WCAI for the years ended 31 December 2001 and 2002 were approximately RMB3.4 million and RMB3.8 million, respectively.

3. CONSOLIDATED BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at the end of each of the Relevant Periods:

The Group

		As at 31 December			As at
		2000	2001	2002	31 March
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Fixed assets	(a)	282,374	900,313	3,462,496	3,775,431
Intangible assets	(b)	—	—	11,701	11,401
Negative goodwill	(c)	—	—	(29,528)	(28,780)
Other long term assets	(e)	—	80,203	96,250	70,110
TOTAL NON-CURRENT ASSETS		<u>282,374</u>	<u>980,516</u>	<u>3,540,919</u>	<u>3,828,162</u>
CURRENT ASSETS					
Inventories	(f)	259,524	353,228	749,738	1,235,568
Trade receivables	(g)	101,361	254,216	254,714	351,525
Prepayments, deposits and other receivables	(h)	122,639	123,582	125,922	136,305
Amounts due from related parties	(i)	32,585	36,602	130,731	189,574
Amount due from the immediate holding company	(i)	—	464,305	—	—
Pledged deposits	(j)	68,970	207,154	569,313	798,279
Cash and cash equivalents	(j)	<u>120,218</u>	<u>212,818</u>	<u>167,635</u>	<u>289,464</u>
TOTAL CURRENT ASSETS		<u>705,297</u>	<u>1,651,905</u>	<u>1,998,053</u>	<u>3,000,715</u>
CURRENT LIABILITIES					
Trade payables	(k)	88,106	239,360	437,316	1,156,946
Bills payable	(l)	—	375,000	427,540	771,540
Tax payable		19,751	49,827	96,775	146,819
Other payables and accruals	(m)	43,451	60,939	189,726	182,261
Interest-bearing bank loans, current	(n)	210,539	1,252,734	496,824	462,587
Amount due to a related party	(i)	—	29,448	—	4,309
Amount due to the immediate holding company	(i)	47,418	—	252,608	165,610
Dividend payable		—	—	1,690	1,690
TOTAL CURRENT LIABILITIES		<u>409,265</u>	<u>2,007,308</u>	<u>1,902,479</u>	<u>2,891,762</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>296,032</u>	<u>(355,403)</u>	<u>95,574</u>	<u>108,953</u>

APPENDIX I
ACCOUNTANTS' REPORT

		As at 31 December			As at
		2000	2001	2002	31 March
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>578,406</u>	<u>625,113</u>	<u>3,636,493</u>	<u>3,937,115</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank loans, long term portion	(n)	129,730	—	1,857,813	2,050,970
Long term payable to the immediate holding company	(o)	<u>—</u>	<u>—</u>	<u>178,927</u>	<u>178,927</u>
TOTAL NON-CURRENT LIABILITIES		<u>129,730</u>	<u>—</u>	<u>2,036,740</u>	<u>2,229,897</u>
MINORITY INTERESTS		<u>—</u>	<u>22,397</u>	<u>54,456</u>	<u>53,749</u>
NET ASSETS		<u>448,676</u>	<u>602,716</u>	<u>1,545,297</u>	<u>1,653,469</u>
CAPITAL AND RESERVES					
Issued capital		202,040	202,040	530,770	530,770
Reserves		246,636	269,350	1,014,527	1,122,699
Proposed final dividend		<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
SHAREHOLDERS' EQUITY		<u>448,676</u>	<u>602,716</u>	<u>1,545,297</u>	<u>1,653,469</u>

APPENDIX I
ACCOUNTANTS' REPORT
The Company

		As at 31 December			As at
		2000	2001	2002	31 March
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Fixed assets	(a)	282,374	759,650	2,552,420	2,463,963
Interests in subsidiaries	(d)	—	112,308	538,205	810,427
Other long term assets	(e)	—	80,203	96,250	70,110
TOTAL NON-CURRENT ASSETS		<u>282,374</u>	<u>952,161</u>	<u>3,186,875</u>	<u>3,344,500</u>
CURRENT ASSETS					
Inventories	(f)	259,524	329,501	673,437	1,131,734
Trade receivables	(g)	101,361	254,050	239,532	334,061
Prepayments, deposits and other receivables	(h)	122,639	122,451	125,336	129,297
Amounts due from related parties	(i)	32,585	36,602	116,329	186,844
Amount due from the immediate holding company	(i)	—	452,513	—	68,576
Pledged deposits	(j)	68,970	207,154	560,913	789,879
Cash and cash equivalents	(j)	<u>120,218</u>	<u>190,146</u>	<u>143,464</u>	<u>251,955</u>
TOTAL CURRENT ASSETS		<u>705,297</u>	<u>1,592,417</u>	<u>1,859,011</u>	<u>2,892,346</u>
CURRENT LIABILITIES					
Trade payables	(k)	88,106	237,287	406,715	1,136,974
Bills payable	(l)	—	375,000	399,540	743,540
Tax payable		19,751	49,047	95,751	144,075
Other payables and accruals	(m)	43,451	53,424	148,649	126,611
Interest-bearing bank loans, current	(n)	210,539	1,201,934	442,824	442,587
Amount due to a related party	(i)	—	29,448	7,081	7,081
Amount due to the immediate holding company	(i)	47,418	—	131,106	—
Dividend payable		—	—	1,690	1,690
TOTAL CURRENT LIABILITIES		<u>409,265</u>	<u>1,946,140</u>	<u>1,633,356</u>	<u>2,602,558</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>296,032</u>	<u>(353,723)</u>	<u>225,655</u>	<u>289,788</u>

APPENDIX I
ACCOUNTANTS' REPORT

		As at 31 December			As at
		2000	2001	2002	31 March
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>578,406</u>	<u>598,438</u>	<u>3,412,530</u>	<u>3,634,288</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank loans, long term portion	(n)	129,730	—	1,700,813	1,824,970
Long term payable to the immediate holding company	(o)	<u>—</u>	<u>—</u>	<u>178,927</u>	<u>178,927</u>
TOTAL NON-CURRENT LIABILITIES		<u>129,730</u>	<u>—</u>	<u>1,879,740</u>	<u>2,003,897</u>
NET ASSETS		<u>448,676</u>	<u>598,438</u>	<u>1,532,790</u>	<u>1,630,391</u>
CAPITAL AND RESERVES					
Issued capital		202,040	202,040	530,770	530,770
Reserves		246,636	265,072	1,002,020	1,099,621
Proposed final dividend		<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
SHAREHOLDERS' EQUITY		<u>448,676</u>	<u>598,438</u>	<u>1,532,790</u>	<u>1,630,391</u>

APPENDIX I
ACCOUNTANTS' REPORT

Notes:

(a) **Fixed assets**

The Group

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:					
At 1 January 2000	68,150	246,858	—	12	315,020
Additions	—	2,699	—	2,180	4,879
Transfers	—	793	—	(793)	—
Disposals	—	(103)	—	—	(103)
At 31 December 2000	68,150	250,247	—	1,399	319,796
Additions	952	86,198	4,593	190,355	282,098
Acquisition from Binzhou Weiqiao	—	148,731	—	—	148,731
Acquisition from Holding Company by assumption of short term loans and cash settlement (Section 5(b)(i))	77,347	189,684	—	—	267,031
Transfers	26,138	89,378	—	(115,516)	—
Disposals to Holding Company	—	(26,499)	—	—	(26,499)
At 31 December 2001	172,587	737,739	4,593	76,238	991,157
Additions	24,099	198,922	2,676	80,723	306,420
Acquisition from Holding Company	178,927	47,843	—	—	226,770
Acquisition of a subsidiary	127,763	309,339	1,655	284,430	723,187
Contribution by Holding Company (Section 5(b)(ii))	104,467	1,322,534	—	—	1,427,001
Transfers	4,241	142,013	—	(146,254)	—
At 31 December 2002	612,084	2,758,390	8,924	295,137	3,674,535
Additions	—	175,470	501	199,627	375,598
Transfers	127,810	190,856	—	(318,666)	—
At 31 March 2003	739,894	3,124,716	9,425	176,098	4,050,133
Accumulated depreciation:					
At 1 January 2000	4,588	5,011	—	—	9,599
Provided during the year	5,199	22,727	—	—	27,926
Disposals	—	(103)	—	—	(103)
At 31 December 2000	9,787	27,635	—	—	37,422
Provided during the year	3,139	50,130	153	—	53,422
At 31 December 2001	12,926	77,765	153	—	90,844
Provided during the year	7,156	113,303	736	—	121,195
At 31 December 2002	20,082	191,068	889	—	212,039
Provided during the period	4,524	57,882	257	—	62,663
At 31 March 2003	24,606	248,950	1,146	—	274,702

APPENDIX I
ACCOUNTANTS' REPORT

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book value:					
At 31 March 2003	715,288	2,875,766	8,279	176,098	3,775,431
At 31 December 2002	592,002	2,567,322	8,035	295,137	3,462,496
At 31 December 2001	159,661	659,974	4,440	76,238	900,313
At 31 December 2000	58,363	222,612	—	1,399	282,374

Certain of the Group's bank loans are secured by certain of the Group's buildings, machinery and equipment, which had an aggregate net book value of approximately RMB191 million, RMB280 million, RMB2,708 million and RMB2,961 million, respectively, at the end of each of the Relevant Periods.

The Company

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:					
At 1 January 2000	68,150	246,858	—	12	315,020
Additions	—	2,699	—	2,180	4,879
Transfers	—	793	—	(793)	—
Disposals	—	(103)	—	—	(103)
At 31 December 2000	68,150	250,247	—	1,399	319,796
Additions	952	58,557	3,013	74,640	137,162
Acquisition from Binzhou Weiqiao	—	148,731	—	—	148,731
Acquisition from Holding Company by assumption of short term loans and cash settlement (Section 5(b)(i))	77,347	189,684	—	—	267,031
Disposals to Holding Company	—	(26,499)	—	—	(26,499)
At 31 December 2001	146,449	620,720	3,013	76,039	846,221
Acquisition from Holding Company	178,927	47,843	—	—	226,770
Additions	22,975	197,721	2,344	60,955	283,995
Transfers	1,401	135,593	—	(136,994)	—
Contribution by Holding Company (Section 5(b)(ii))	104,467	1,322,534	—	—	1,427,001
Contribution to a subsidiary	(6,053)	(58,914)	—	—	(64,967)
At 31 December 2002	448,166	2,265,497	5,357	—	2,719,020
Additions	—	170,601	—	—	170,601
Contribution to a subsidiary	—	(208,022)	—	—	(208,022)
At 31 March 2003	448,166	2,228,076	5,357	—	2,681,599

APPENDIX I
ACCOUNTANTS' REPORT

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accumulated depreciation:					
At 1 January 2000	4,588	5,011	—	—	9,599
Provided during the year	5,199	22,727	—	—	27,926
Disposals	—	(103)	—	—	(103)
At 31 December 2000	9,787	27,635	—	—	37,422
Provided during the year	3,139	45,914	96	—	49,149
At 31 December 2001	12,926	73,549	96	—	86,571
Provided during the year	4,849	98,123	448	—	103,420
Contribution to a subsidiary	(134)	(23,257)	—	—	(23,391)
At 31 December 2002	17,641	148,415	544	—	166,600
Provided during the period	3,150	47,741	145	—	51,036
At 31 March 2003	20,791	196,156	689	—	217,636
Net book value:					
At 31 March 2003	427,375	2,031,920	4,668	—	2,463,963
At 31 December 2002	430,525	2,117,082	4,813	—	2,552,420
At 31 December 2001	133,523	547,171	2,917	76,039	759,650
At 31 December 2000	58,363	222,612	—	1,399	282,374

(b) Intangible assets

Intangible assets of the Group represent technology rights of US\$1,450,000 (or approximately, RMB12 million) injected by a minority shareholder to a subsidiary as capital contribution in September 2002:

	Year ended 31 December 2002	Three-month period ended 31 March 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year/period	—	12,001
Additions	12,001	—
At closing of year/period	12,001	12,001
Amortisation:		
At beginning of year/period	—	300
Provided during the year/period	300	300
At closing of year/period	300	600
Net book value	11,701	11,401

APPENDIX I**ACCOUNTANTS' REPORT****(c) Negative goodwill**

Negative goodwill recognised in the consolidated balance sheets, arising from the acquisition of Industrial Park in 2002, is as follows:

	Year ended 31 December 2002	Three-month period ended 31 March 2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year/period	—	(29,902)
Acquisition of a subsidiary (Section 5(a))	<u>(29,902)</u>	<u>—</u>
At closing of year/period	<u>(29,902)</u>	<u>(29,902)</u>
Recognition as income:		
At beginning of year/period	—	374
Recognised as income during the year/period	<u>374</u>	<u>748</u>
At closing of year/period	<u>374</u>	<u>1,122</u>
Net book value	<u>(29,528)</u>	<u>(28,780)</u>

(d) Interests in subsidiaries

Details of the interests in subsidiaries of the Company are set out below:

	As at 31 December			As at 31 March
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	—	129,000	267,968	457,635
Amounts due from subsidiaries	—	—	444,655	562,338
Amounts due to subsidiaries	<u>—</u>	<u>(16,692)</u>	<u>(174,418)</u>	<u>(209,546)</u>
	<u>—</u>	<u>112,308</u>	<u>538,205</u>	<u>810,427</u>

Amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

APPENDIX I
ACCOUNTANTS' REPORT
(e) Other long term assets
The Group and the Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Export VAT refundable	—	80,203	96,250	70,110

Certain of the Group's export VAT refundable as at 31 December 2001 were utilised to secure bank loans up to approximately RMB67 million.

(f) Inventories
The Group

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	161,727	23,941	188,876	185,891
Work in progress	15,902	29,480	111,440	124,904
Semi-finished goods	75,484	201,834	101,756	62,750
Finished goods	—	84,518	116,573	217,263
Consigned materials for processing	5,446	9,943	58	1,377
Consumables	965	3,512	24,578	44,073
Raw materials in transit	—	—	206,457	599,310
Total	<u>259,524</u>	<u>353,228</u>	<u>749,738</u>	<u>1,235,568</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	161,727	21,478	173,077	157,479
Work in progress	15,902	27,159	89,781	88,177
Semi-finished goods	75,484	186,338	89,192	55,094
Finished goods	—	81,584	101,807	190,936
Consigned materials for processing	5,446	9,943	57	1,377
Consumables	965	2,999	13,066	39,361
Raw materials in transit	—	—	206,457	599,310
Total	<u>259,524</u>	<u>329,501</u>	<u>673,437</u>	<u>1,131,734</u>

APPENDIX I**ACCOUNTANTS' REPORT**

The carrying amount of inventories carried at net realisable value included in the Group's and the Company's balances were approximately RMB138 million as at 31 March 2003.

Certain of the Company's raw materials in transit as at 31 March 2003 were utilised to secure bank loans up to approximately RMB29.5 million.

(g) Trade receivables

The aged analysis of the trade receivables of the Group and the Company is analysed as follows:

The Group

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 3 months	94,195	230,167	247,616	334,714
3 months to 6 months	5,139	21,265	3,744	14,224
6 months to 1 year	660	2,338	700	1,378
1 year to 2 years	<u>1,367</u>	<u>446</u>	<u>2,654</u>	<u>1,209</u>
	<u>101,361</u>	<u>254,216</u>	<u>254,714</u>	<u>351,525</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 3 months	94,195	230,001	232,434	317,250
3 months to 6 months	5,139	21,265	3,744	14,224
6 months to 1 year	660	2,338	700	1,378
1 year to 2 years	<u>1,367</u>	<u>446</u>	<u>2,654</u>	<u>1,209</u>
	<u>101,361</u>	<u>254,050</u>	<u>239,532</u>	<u>334,061</u>

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers with a long-term relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

(h) **Prepayments, deposits and other receivables****The Group**

	As at 31 December			As at 31 March
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	75,429	58,091	35,424	38,708
Export VAT refundable	45,635	64,489	90,000	90,000
Other receivables and prepayments	<u>1,575</u>	<u>1,002</u>	<u>498</u>	<u>7,597</u>
Total	<u>122,639</u>	<u>123,582</u>	<u>125,922</u>	<u>136,305</u>

The Company

	As at 31 December			As at 31 March
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	75,429	57,957	35,236	38,478
Export VAT refundable	45,635	64,489	90,000	90,000
Other receivables and prepayments	<u>1,575</u>	<u>5</u>	<u>100</u>	<u>819</u>
Total	<u>122,639</u>	<u>122,451</u>	<u>125,336</u>	<u>129,297</u>

(i) **Amounts due from/to the immediate holding company/related parties**

The balances with the immediate holding company and related parties are unsecured, non-interest bearing and have no fixed repayment terms.

(j) Cash and cash equivalents and pledged deposits

The Group

	As at 31 December			As at
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	120,218	212,818	167,635	289,464
Time deposits, pledged	68,970	207,154	569,313	798,279
	189,188	419,972	736,948	1,087,743
Less: Pledged time deposits:				
Pledged for letter of credit facilities	(68,970)	(82,654)	(215,413)	(427,626)
Pledged for issuance of bills payable (<i>Note 1</i>)	—	(124,500)	(353,900)	(370,653)
Cash and cash equivalents	<u>120,218</u>	<u>212,818</u>	<u>167,635</u>	<u>289,464</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	120,218	190,146	143,464	251,955
Time deposits, pledged	68,970	207,154	560,913	789,879
	189,188	397,300	704,377	1,041,834
Less: Pledged time deposits:				
Pledged for letter of credit facilities	(68,970)	(82,654)	(215,413)	(427,626)
Pledged for issuance of bills payable (<i>Note 1</i>)	—	(124,500)	(345,500)	(362,253)
Cash and cash equivalents	<u>120,218</u>	<u>190,146</u>	<u>143,464</u>	<u>251,955</u>

(k) **Trade payables**

The aged analysis of the trade payables of the Group and the Company is analysed as follows:

The Group

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 90 days	84,301	232,960	434,058	1,134,310
90 days to 3 years	<u>3,805</u>	<u>6,400</u>	<u>3,258</u>	<u>22,636</u>
	<u>88,106</u>	<u>239,360</u>	<u>437,316</u>	<u>1,156,946</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 90 days	84,301	231,470	403,457	1,115,319
90 days to 3 years	<u>3,805</u>	<u>5,817</u>	<u>3,258</u>	<u>21,655</u>
	<u>88,106</u>	<u>237,287</u>	<u>406,715</u>	<u>1,136,974</u>

(l) **Bills payable****The Group**

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 90 days	—	185,000	199,540	597,000
90 to 180 days	<u>—</u>	<u>190,000</u>	<u>228,000</u>	<u>174,540</u>
	<u>—</u>	<u>375,000</u>	<u>427,540</u>	<u>771,540</u>

APPENDIX I**ACCOUNTANTS' REPORT**

Included in the Group's balances are bills payable to the immediate holding company and related parties:

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The immediate holding company	—	185,000	304,000	595,000
Related parties	—	50,000	123,540	176,540
	<u>—</u>	<u>235,000</u>	<u>427,540</u>	<u>771,540</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:				
Within 90 days	—	185,000	171,540	572,000
90 to 180 days	—	190,000	228,000	171,540
	<u>—</u>	<u>375,000</u>	<u>399,540</u>	<u>743,540</u>

Included in the Company's balances are bills payable to the immediate holding company and related parties:

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The immediate holding company	—	185,000	304,000	595,000
Related parties	—	50,000	95,540	148,540
	<u>—</u>	<u>235,000</u>	<u>399,540</u>	<u>743,540</u>

The Group's and the Company's bills payable are secured by the pledge of certain of the Group's and the Company's time deposits; details of which are described in Note (j) above.

(m) Other payables and accruals

Included in the Group's other payables and accruals as at 31 December 2002 and 31 March 2003, an amount of government grants totalling RMB13,390,000 was provided by the Finance Bureau of the Binzhou City to Industrial Park for purpose of providing support for the development of Industrial Park.

(n) **Borrowings**(1) *Interest-bearing bank loans, current portion***The Group**

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current portion of bank loans	<u>210,539</u>	<u>1,252,734</u>	<u>496,824</u>	<u>462,587</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current portion of bank loans	<u>210,539</u>	<u>1,201,934</u>	<u>442,824</u>	<u>442,587</u>

(2) *Interest-bearing bank loans, long term portion***The Group**

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans:				
Secured	123,980	299,766	2,182,943	2,134,811
Unsecured	<u>216,289</u>	<u>952,968</u>	<u>171,694</u>	<u>378,746</u>
	<u>340,269</u>	<u>1,252,734</u>	<u>2,354,637</u>	<u>2,513,557</u>
Bank loans repayable:				
Within one year or on demand	210,539	1,252,734	496,824	462,587
In the second year	—	—	76,500	113,385
In the third to fifth years, inclusive	<u>129,730</u>	<u>—</u>	<u>1,781,313</u>	<u>1,937,585</u>
	340,269	1,252,734	2,354,637	2,513,557
Portion classified as current liabilities	<u>(210,539)</u>	<u>(1,252,734)</u>	<u>(496,824)</u>	<u>(462,587)</u>
Long term portion	<u>129,730</u>	<u>—</u>	<u>1,857,813</u>	<u>2,050,970</u>

The Company

	As at 31 December			As at
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans:				
Secured	123,980	269,766	2,112,943	2,059,809
Unsecured	<u>216,289</u>	<u>932,168</u>	<u>30,694</u>	<u>207,748</u>
	<u>340,269</u>	<u>1,201,934</u>	<u>2,143,637</u>	<u>2,267,557</u>
Bank loans repayable:				
Within one year or on demand	210,539	1,201,934	442,824	442,587
In the second year	—	—	76,500	113,385
In the third to fifth years, inclusive	<u>129,730</u>	<u>—</u>	<u>1,624,313</u>	<u>1,711,585</u>
	340,269	1,201,934	2,143,637	2,267,557
Portion classified as current liabilities	<u>(210,539)</u>	<u>(1,201,934)</u>	<u>(442,824)</u>	<u>(442,587)</u>
Long term portion	<u>129,730</u>	<u>—</u>	<u>1,700,813</u>	<u>1,824,970</u>

- (i) Other than part of the Company's bank loans in the aggregate amount of US\$2 million (RMB16.6 million equivalent), US\$27 million (RMB223.5 million equivalent), US\$65.3 million (RMB540.1 million equivalent) and US\$78.5 million (RMB649.5 million equivalent) as at 31 December 2000, 31 December 2001, 31 December 2002 and 31 March 2003, respectively, all of the Group's and the Company's bank loans are denominated in RMB. All of the Group's and the Company's bank loans bear yearly interest rates ranging from 5.85% to 7.875%, 5.75% to 7.875%, 3.15% to 7.254% and 3.15% to 7.254% as at 31 December 2000, 31 December 2001, 31 December 2002 and 31 March 2003, respectively.
- (ii) Certain of the Group's bank loans are secured by certain of the Group's buildings, machinery and equipment, which had an aggregate net book value of approximately RMB191 million, RMB280 million, RMB2,708 million and RMB2,961 million as at 31 December 2000, 31 December 2001, 31 December 2002 and 31 March 2003, respectively.
- (iii) Certain of the Company's bank loans are secured by certain of the Company's export VAT refundable and raw materials in transit up to approximately RMB67 million and RMB29.5 million as at 31 December 2001 and 31 March 2003, respectively.
- (iv) The Company's immediate holding company has guaranteed certain of the Group's bank loans up to approximately RMB151 million, RMB776 million, RMB142 million and RMB284 million as at 31 December 2000, 31 December 2001, 31 December 2002 and 31 March 2003, respectively. Included in the above-mentioned RMB142 million and RMB284 million guaranteed bank loans, up to approximately RMB40 million were also secured by the immediate holding company's land and buildings as at 31 December 2002 and 31 March 2003.

- (v) Certain of the Group's bank loans are secured by certain of the immediate holding company's land and buildings, and machinery and equipment, up to approximately RMB265 million, as at 31 December 2001.
- (vi) The Company's ultimate holding company, ZCSU, a collectively-owned enterprise formed in the PRC, has guaranteed certain of the Group's bank loans up to approximately RMB175 million and RMB164 million as at 31 December 2000 and 31 December 2001, respectively.
- (vii) The Company has guaranteed bank loans of certain of its subsidiaries up to approximately RMB60 million and RMB125 million as at 31 December 2002 and 31 March 2003, respectively.
- (viii) As disclosed in Section 2(e), the Company had arranged with the immediate holding company to borrow bank loans on its behalf during the Relevant Periods.

(o) **Long term payable to the immediate holding company**

The long term payable to the immediate holding company as at 31 March 2003 and 31 December 2002 are unsecured, non-interest bearing and repayable over three years commencing 2005 by three instalments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively.

(p) **Contingent liabilities**

As at 31 December 2000, 2001 and 2002, and 31 March 2003, the Group and the Company had the following contingent liabilities:

	As at 31 December			As at
	2000	2001	2002	31 March
	RMB'000	RMB'000	RMB'000	2003
				RMB'000
Letters of credit issued	68,710	11,175	28,890	345,015
Bills discounted with recourse	—	—	370,000	80,000
Guarantee given to banks in connection with facilities granted to subsidiaries	—	—	60,000	125,000
Outward letters of credit discounted	—	—	7,227	11,547
	<u>68,710</u>	<u>11,175</u>	<u>466,117</u>	<u>561,562</u>

(q) **Commitments**(1) *Capital commitments*

As at 31 December 2000, 2001 and 2002, and 31 March 2003, the Group had the following capital commitments, principally for the construction and acquisition of fixed assets:

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for	43,296	16,564	61,798	30,089
Authorized, but not contracted for	—	—	—	—
	<u>43,296</u>	<u>16,564</u>	<u>61,798</u>	<u>30,089</u>

(2) *Operating lease commitments*

As at 31 December 2000, 2001 and 2002, and 31 March 2003, the Group had the following total future minimum lease payments under non-cancellable operating leases in respect of land and buildings:

	As at 31 December			As at
	2000	2001	2002	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,100	1,900	2,870	2,870
In the second to fifth years, inclusive	4,500	7,300	10,500	10,300
After five years	<u>6,800</u>	<u>19,000</u>	<u>32,300</u>	<u>31,700</u>
	<u>12,400</u>	<u>28,200</u>	<u>45,670</u>	<u>44,870</u>

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Periods are as follows:

	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(a), (b)	(Section 2(g))	(Section 2(g))	(Section 2(g))		
As at 1 January 2000	202,040	108,791	412	412	—	3,298	314,953
Net profit for the year	—	—	—	—	—	133,723	133,723
Transfer from/(to) reserves	—	—	13,379	13,379	—	(26,758)	—
As at 31 December 2000	202,040	108,791	13,791	13,791	—	110,263	448,676
Net profit for the year	—	—	—	—	—	154,040	154,040
Transfer from/(to) reserves	—	—	10,652	10,313	—	(20,965)	—
Proposed final 2001 dividend	—	—	—	—	131,326	(131,326)	—
As at 31 December 2001	202,040	108,791	24,443	24,104	131,326	112,012	602,716
Declared 2001 final dividend	—	—	—	—	(131,326)	—	(131,326)
Capital contribution (b)	328,730	456,937	—	—	—	—	785,667
Net profit for the year	—	—	—	—	—	288,240	288,240
Transfer from/(to) reserves	—	—	29,695	28,955	—	(58,650)	—
As at 31 December 2002	530,770	565,728	54,138	53,059	—	341,602	1,545,297
Net profit for the period	—	—	—	—	—	108,172	108,172
As at 31 March 2003	<u>530,770</u>	<u>565,728</u>	<u>54,138</u>	<u>53,059</u>	<u>—</u>	<u>449,774</u>	<u>1,653,469</u>

- (a) Upon incorporation on 6 December 1999, the registered capital of the Company was RMB202,040,000 consisting of 202,040,000 Domestic shares of RMB1.00 per share. 194,240,000 shares were issued to Holding Company, the immediate holding company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities by Holding Company in December 1999. The net assets injected by Holding Company amounted to RMB298,830,770, according to the valuation performed by Shandong Bo Hui Certified Public Accountants Ltd. as described in its valuation report dated 21 September 1999. The remaining 7,800,000 shares were issued to shareholders for a total cash consideration of RMB12,000,000.

- (b) Pursuant to a shareholders' resolution dated 15 July 2002, the registered capital of the Company was increased to RMB530,770,000 of RMB1.00 each. 328,730,000 shares were issued to Holding Company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities by Holding Company on 30 September 2002. The net assets injected by Holding Company amounted to RMB785,667,466, according to the valuation performed by Shandong Zheng Yuan He Xin Certified Public Accountants Ltd. as described in its valuation report dated 28 June 2002. The increase in registered capital and the issuance of 328,730,000 shares to Holding Company in exchange for the net assets injected were approved by the Office for Restructuring the Economic System of Shandong Province on 28 October 2002.

5. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods are as follows:

	Year ended 31 December			Three-month period ended 31 March
	2000	2001	2002	2003
Notes	RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	206,780	246,414	461,058	170,937
Adjustments for:				
Finance costs	16,500	46,009	101,506	29,882
Exchange losses, net	2,826	1,397	3,585	481
Negative goodwill recognised				
as income	—	—	(374)	(748)
Interest income	(2,789)	(10,012)	(9,340)	(3,208)
Depreciation	27,926	53,422	121,195	62,663
Amortisation of intangible assets	—	—	300	300
Provision for bad and doubtful debts	6,397	4,120	4,182	—
Provision for inventories	—	—	14,851	10,451
Operating profit before working capital changes	257,640	341,350	696,963	270,758
Increase in inventories	(241,093)	(93,704)	(333,357)	(496,281)
Increase in trade receivables	(54,892)	(156,975)	(4,680)	(96,811)
Decrease/(increase) in prepayments, deposits and other receivables	(38,370)	(943)	26,870	(12,090)

APPENDIX I
ACCOUNTANTS' REPORT

	Year ended 31 December			Three-month period ended 31 March
	2000	2001	2002	2003
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase/(decrease) in trade payables	(111,863)	151,254	176,412	719,630
Increase/(decrease) in bills payable	(6,000)	375,000	24,540	344,000
Increase/(decrease) in other payables and accruals	6,494	17,488	113,746	(7,465)
Increase/(decrease) in net amount due to the immediate holding company	206,033	(511,723)	84,602	(86,998)
Decrease/(increase) in net amounts due from related parties	<u>(29,377)</u>	<u>25,431</u>	<u>(226,190)</u>	<u>(54,534)</u>
Cash generated from operations	(11,428)	147,178	558,906	580,209
Decrease/(increase) in other long term assets	—	(80,203)	(16,047)	26,140
Interest paid	(16,500)	(46,009)	(101,506)	(29,882)
PRC corporate income tax paid	<u>(53,306)</u>	<u>(58,901)</u>	<u>(122,679)</u>	<u>(11,721)</u>
Net cash inflow/(outflow) from operating activities	<u>(81,234)</u>	<u>(37,935)</u>	<u>318,674</u>	<u>564,746</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	2,789	10,012	9,340	3,208
Purchases of fixed assets	(4,879)	(461,039)	(354,263)	(375,598)
Proceeds from disposal of fixed assets	—	26,499	—	—
Net cash inflow from the acquisition of a subsidiary (a)	—	—	13,997	—
Increase in pledged time deposits	<u>(68,970)</u>	<u>(138,184)</u>	<u>(362,159)</u>	<u>(228,966)</u>
Net cash outflow from investing activities	<u>(71,060)</u>	<u>(562,712)</u>	<u>(693,085)</u>	<u>(601,356)</u>

	Year ended 31 December			Three-month period ended 31 March
	2000	2001	2002	2003
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans	418,269	921,183	2,265,143	584,629
Repayment of bank loans	(235,707)	(245,539)	(1,807,574)	(425,709)
Dividends paid	—	—	(129,636)	—
Dividends paid to a minority shareholder	—	—	(3,397)	—
Proceeds from capital contributions by minority shareholders	—	19,000	8,277	—
Net cash inflow from financing activities	<u>182,562</u>	<u>694,644</u>	<u>332,813</u>	<u>158,920</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	30,268	93,997	(41,598)	122,310
Cash and cash equivalents at beginning of year/period	92,776	120,218	212,818	167,635
Effect of foreign exchange rate changes, net	<u>(2,826)</u>	<u>(1,397)</u>	<u>(3,585)</u>	<u>(481)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>120,218</u>	<u>212,818</u>	<u>167,635</u>	<u>289,464</u>

Notes:

- (a) Pursuant to an equity transfer agreement entered into between the Company, the immediate holding company and Binzhou Weiqiao, a related party of the Company, on 18 November 2002, the immediate holding company and Binzhou Weiqiao transferred their equity interests in Industrial Park of 90% and 1%, respectively, to the Company for a consideration of RMB90 million and RMB1 million, respectively.

**Year ended
31 December
2002**
RMB'000

Net assets acquired:	
Fixed assets	723,187
Cash and cash equivalents	13,997
Prepayments, deposits and other receivables	29,210
Inventories	32,235
Short term bank loan	(8,000)
Trade payables	(21,544)
Bills payable	(28,000)
Other payables and accruals	(12,130)
Amount due to the immediate holding company	(494,483)
Amounts due to related parties	(101,613)
Minority interests	(11,957)
	<u>120,902</u>
Negative goodwill arising from acquisition	<u>(29,902)</u>
	<u>91,000</u>
Satisfied by:	
Amount due to the immediate holding company	90,000
Amount due to a related party	1,000
	<u>91,000</u>

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

**Year ended
31 December
2002**
RMB'000

Cash and bank balances acquired	<u>13,997</u>
Net cash inflow in respect of the net assets acquired	<u>13,997</u>

(b) Major non-cash transactions

- (i) During 2001, the Company acquired machinery and equipment for a total sum of approximately RMB267 million from the immediate holding company, satisfied by assumption of short term bank loans amounting to RMB237 million and cash settlement of RMB30 million.
- (ii) During 2002, the Company's immediate holding company injected the net assets of its wholly owned Second and Third Production Areas to the Company by way of capital contribution amounting to approximately RMB786 million as follows:

Year ended
31 December
2002
RMB'000

Net assets injected:

Fixed assets	1,427,001
Inventories	45,769
Amount due to the immediate holding company	(47,828)
Other payables and accruals	(2,941)
Short term bank loans	(368,334)
Long term bank loans	<u>(268,000)</u>

785,667

Satisfied by:

Share capital	328,730
Capital reserve	<u>456,937</u>

785,667

- (iii) During 2002, the Company acquired plants and buildings for a total sum of approximately RMB179 million from its immediate holding company. The Company has agreed with the immediate holding company to settle this acquisition cost over three years commencing 2005 by three instalments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively.
- (iv) During 2002, a minority shareholder contributed technology rights of approximately RMB12 million to a subsidiary of the Company.

6. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarn, grey fabric and denim. The Group conducts the majority of its business activities in four geographical areas, namely Mainland China, Hong Kong, East Asia (principally comprising Japan and South Korea) and others. All of the Group's assets are located in Mainland China.

An analysis by geographical segment, as determined by location of its operations, is as follows:

	Three-month period ended 31 March 2003		
	Turnover	Cost of sales	Gross profit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	569,505	426,255	143,250
Hong Kong	290,972	228,604	62,368
East Asia	275,210	254,494	20,716
Others	<u>119,381</u>	<u>102,385</u>	<u>16,996</u>
Total	<u>1,255,068</u>	<u>1,011,738</u>	<u>243,330</u>

	Year ended 31 December 2002		
	Turnover	Cost of sales	Gross profit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	2,160,011	1,731,733	428,278
Hong Kong	1,189,614	1,011,088	178,526
East Asia	776,493	748,044	28,449
Others	<u>254,805</u>	<u>238,402</u>	<u>16,403</u>
Total	<u>4,380,923</u>	<u>3,729,267</u>	<u>651,656</u>

Year ended 31 December 2001			
	Turnover	Cost of sales	Gross profit/ (loss)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,084,479	832,462	252,017
Hong Kong	585,230	478,756	106,474
East Asia	503,762	515,665	(11,903)
Others	<u>180,166</u>	<u>180,603</u>	<u>(437)</u>
Total	<u>2,353,637</u>	<u>2,007,486</u>	<u>346,151</u>

Year ended 31 December 2000			
	Turnover	Cost of sales	Gross profit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	700,752	596,961	103,791
Hong Kong	409,361	302,092	107,269
East Asia	332,129	293,235	38,894
Others	<u>117,042</u>	<u>98,502</u>	<u>18,540</u>
Total	<u>1,559,284</u>	<u>1,290,790</u>	<u>268,494</u>

7. RELATED PARTY TRANSACTIONS

In addition to the Reorganisation, further details of which are set out at the beginning of this accountants' report and in the Business section of the Prospectus, and transactions and balances disclosed at the beginning of this accountants' report, Section 2(e), Section 3(i), (l), (n) and (o), and Section 5 in this report during the Relevant Periods, the Group had the following material transactions with the following related parties. The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with members of ZCSU. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to entities in which ZCSU is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

Continuing transactions

Name of related parties	Relationship with the Company	Nature of transactions	Year ended 31 December				Three-month period ended 31 March
			2000	2001	2002	2003	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Holding Company	The immediate holding company	Purchase of lint cotton and tailings	177,659	87,535	224,260		116,300
		Expenses on provision of electricity and steam power	60,387	141,768	145,684		43,617
		Expenses on property leasing	356	1,561	2,163		718
Wei qiao Dyeing and Weaving Co., Ltd. ("Wei qiao Dyeing")	A fellow subsidiary	Sale of cotton yarns	70,251	90,826	99,324		24,940
Weilian Printing and Dyeing Co., Ltd. ("Weilian Printing")	A fellow subsidiary	Sale of grey fabric	—	—	15,425		11,288
		Expenses on provision of processing services	—	—	3,186		2,745
Wei qiao Bleaching-Dyeing Co., Ltd.	An associate of Holding Company	Sale of cotton yarns	—	—	4,047		1,506

In the opinion of the directors, the above transactions were conducted in the ordinary course of business and will be continued after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

In connection with the Reorganisation, the Group entered into several agreements with Holding Company and its subsidiaries other than the companies now comprising the Group (collectively, the "Holding Group") which govern the supply of cotton by Holding Company, the supply of cotton yarns and grey fabrics to the Holding Group, the provision of processing services by the Holding Group, the supply of electricity and steam power by Holding Company. Pursuant to an agreement signed between the Company and Holding Company dated 10 May 2000, commencing 1 January 2000, Holding Company provided electricity and steam power to the Company at a billing rate of RMB0.55/kwh and RMB60/ton, respectively. The two parties signed a supplementary agreement on 1 July 2002, which took effect on 1 January 2002. Pursuant to the supplementary agreement, the billing rate for electricity was revised from RMB0.55/kwh to RMB0.35/kwh with the billing rate for steam power remaining unchanged at RMB60/ton. Industrial park and Luteng Textile each signed an agreement with Holding Company on 1 September 2002. Pursuant to the agreements, Holding Company provided electricity and steam power to these two companies at a billing rate of RMB0.35/kwh and RMB60/ton, respectively, commencing 1 September 2002.

During the Relevant Periods and in connection with the Reorganisation, the Group signed six property lease agreements with Holding Company, with a right of renewal exercisable by the Group. The significant terms of such agreements are summarized as follows:

- i) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental expense of RMB454,900 for the land relating to the First Production Area.
- ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental expense of RMB868,000 for the land relating to the First Production Area.
- iii) Land use rights lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, at an annual rental expense of RMB888,700 for the land relating to the Second Production Area.
- iv) Land use rights lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, at an annual rental expense of RMB1,503,000 for the land relating to the Third Production Area.
- v) Land use rights lease agreement dated 13 September 2002 with the commencement date and expiry date on 13 September 2002 and 13 September 2022, respectively, at an annual rental expense of RMB60,700 for the land relating to the Second Production Area.
- vi) Operating lease agreement for a building dated 10 May 2000 with the commencement date and expiry date on 10 May 2000 and 10 May 2006, respectively, at an annual rental expense of RMB600,000 for a building located at No. 34 Qidong Road, Weiqiao Town, Zouping District, Shandong Province, the PRC.

Discontinuing transactions

Name of related parties	Relationship with the Company	Nature of transactions	Year ended 31 December				Three-month period ended
			2000			2001	2002
			2000	2001	2002	2003	2003
			RMB'000	RMB'000	RMB'000		RMB'000
Holding Company	The immediate holding company	Sale of cotton yarns, grey fabric and denim	401,337	188,841	449,458		4,522
		Sale of ancillary materials and spare parts	15,377	47,761	85,719		269
		Sale of lint cotton and tailings	—	205,396	410,127		—
		Sale of fixed assets	—	26,499	—		—
		Purchase of remaining lint cotton	—	—	—		7,449
		Purchase of cotton yarns, grey fabric and denim	166,967	377,262	1,110,732		59,977
		Purchase of fixed assets	—	—	47,843		—
		Purchase of ancillary materials and spare parts	6,560	19,143	23,542		272
		Expenses on equipment and property leasing	—	—	35,000		—
		Expenses on provision of processing services	137,431	61,783	1,669		—
Industrial Park	A fellow subsidiary (before becoming a subsidiary of the Company in November 2002)	Sale of lint cotton and tailings	—	—	21,938		—
		Purchase of cotton yarns and grey fabric	—	—	25,321		—
		Purchase of tailings	—	—	1,121		—
Weiqiao Dyeing	A fellow subsidiary	Sale of grey fabric and denim	—	1,801	70,377		—
		Purchase of corduroy	4,776	6,675	11,169		9,614
		Expenses on provision of processing services	—	900	129		391
Weilian Printing	A fellow subsidiary	Purchase of coloured fabric	—	—	881		5,348
Binzhou Weiqiao	A fellow subsidiary	Sale of lint cotton and tailings	101,397	63,370	41,539		—
		Sale of cotton yarns and grey fabric	11,163	27,731	26,563		—

APPENDIX I
ACCOUNTANTS' REPORT

Name of related parties	Relationship with the Company	Nature of transactions	Year ended 31 December				Three-month period ended 31 March
			2000	2001	2002	2003	
			RMB'000	RMB'000	RMB'000	RMB'000	
		Sale of ancillary materials and spare parts	7,648	1,961	1,793	—	
		Purchase of cotton yarns and grey fabric	171,663	121,328	156,210	—	
		Purchase of lint cotton and tailings	—	9,974	3,740	—	
		Purchase of ancillary materials and spare parts	—	2,731	2,731	—	
		Purchase of fixed assets	—	148,731	—	—	
		Expenses on equipment leasing	—	12,993	—	—	
No. 6 Oil and Cotton Company	A fellow subsidiary of Holding Company	Purchase of lint cotton	33,128	40,304	30,401	12,224	
Pozhuang Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	30,377	23,303	12,925	3,902	
No. 2 Oil and Cotton Factory	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	6,737	3,226	2,251	
Zouping Cotton and Hemp Fibre Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	—	18,249	627	
No. 1 Oil and Cotton Factory	A fellow subsidiary of Holding Company	Purchase of lint cotton	339	4,299	5,570	374	
Zouping Fuhai Oil Industrial Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	1,858	8,499	17,803	299	
Zouping Cotton and Hemp Fibre Co.	A fellow subsidiary of Holding Company	Purchase of lint cotton	3,477	54,158	5,164	—	

In addition, during the years ended 31 December 2001 and 2002 and the three-month period ended 31 March 2003, the Group received bills receivable aggregating approximately RMB176 million, RMB1,363 million and RMB76 million, respectively, from Holding Company. All of the bills were discounted with banks, of which an aggregate amount of approximately RMB80 million remains outstanding with recourse as at 31 March 2003 (Section 3(p)). According to the arrangement with Holding Company, discounting charges were borne by Holding Company. During the years ended 31 December 2001 and 2002 and the three-month period ended 31 March 2003, discounting charges of approximately RMB3 million, RMB21 million and RMB1 million, respectively, were borne by Holding Company.

During the years ended 31 December 2001 and 2002 and the three-month period ended 31 March 2003, the Group issued bills payable aggregating approximately RMB275 million, RMB578 million and RMB597 million, respectively, to the subsidiaries (including Holding Company) of ZCSU (the "ZCSU Group"). All of the bills were discounted with banks and the related discounting charges were borne by the ZCSU Group.

The directors are of the opinion that such transactions will not be continued after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Save as disclosed in Section 2(d), no emoluments have been paid or are payable in respect of the Relevant Periods referred to in this report by the Company or any of the companies now comprising the Group, to the directors or supervisors of the Company. Under the arrangements currently in force, the estimated amount of directors' and supervisors' fees and other emoluments payable to the directors and supervisors of the Company for the year ending 31 December 2003 is estimated to be RMB1,600,344 excluding discretionary bonuses payable under directors' and supervisors' service contracts, a summary of the terms of which is set out in the paragraph headed "Further Information about Directors, Supervisors, Management and Staff" in Appendix VII to the Prospectus.

9. ULTIMATE HOLDING COMPANY

The directors consider ZCSU, a collectively-owned enterprise formed in the PRC, as the ultimate holding company.

10. SUBSEQUENT EVENTS

- (a) On 16 June 2003, a transfer and offset of current liabilities agreement was entered amongst the Group, Holding Company and the related parties. Pursuant to the agreement, the amounts due from/to related parties as at 31 March 2003 were offset against the amount due to Holding Company as at 31 March 2003, resulting in a net amount due from Holding Company of approximately RMB19.7 million, which was subsequently settled in cash by Holding Company to the Group on 20 June 2003.
- (b) On 8 July 2003, certain guarantees provided by the Company against bank loans of Industrial Park of approximately RMB41 million were released and replaced by other guarantees severally provided by the Company and Holding Company. Pursuant to the new guarantees, the Company and Holding Company agreed to guarantee severally 97% and 3%, respectively, of the obligations of Industrial Park in respect of certain bank loans amounting to approximately RMB41 million. Each of the guarantees will continue for a period of two years after the day on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB41 million are within the period from 17 July 2005 to 30 December 2005.

- (c) On 14 July 2003, certain guarantees provided by the Company against bank loans of Weihai Weiqiao of approximately RMB84 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to the new guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to approximately RMB84 million. Each of the guarantees will continue for a period of two years after the day on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB84 million are within the period from 19 November 2005 to 27 February 2006.
- (d) In addition to note (c) above, on 14 July 2003, certain guarantees provided by Holding Company against bank loans of Weihai Weiqiao of about RMB76 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to these guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to approximately RMB76 million. Each of the guarantees will continue for a period of two years after the day on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB76 million are within the period from 30 July 2005 to 9 October 2005.
- (e) On 27th June, 2003, the Company entered into a guarantee agreement with Shanghai Pudong Development Bank Co., Ltd. in respect of a guarantee solely provided by the Company against a bank loan and certain bills payable of RMB30 million and RMB40 million, respectively, obtained by Weihai Weiqiao on 27th June, 2003. On 18 August 2003, this guarantee was released and replaced by another guarantee severally provided by the Company and WCAI. Pursuant to the guarantee, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of a bank loan of RMB30 million and bills payable of RMB40 million. The guarantee will continue for a period of two years after the day on which the relevant loan repayment or the settlement of the relevant bills payable is made. The expiry dates of the aforesaid bank loan and bills payable are 27 June 2004 and 27 December 2003, respectively.
- (f) Except for the guarantees severally provided by the Holding Company and the Company in accordance with their respective equity interests as set out in note (b) above, up to 14 July 2003, Holding Company released all its guarantees provided against, and the assets pledged to secure, the bank loans and the banking facilities of the Group.

- (g) On 25 August 2003, the Company entered into several agreements with Holding Company in relation to supply of cotton by Holding Company to the Group, supply of cotton yarn and cotton fabric by the Group to the Holding Group, supply of electricity and steam by Holding Company to the Group, provision of processing services by the Holding Group to the Group, and transfer of equipment from Holding Company to the Company. The details of such agreements are set out in the paragraph headed "Connected Transactions" in the Prospectus.
- (h) Save as aforesaid, no other significant events took place subsequent to 31 March 2003.

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2003.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The information set out in this appendix is prepared by the Directors and does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the independent reporting accountants of the Company, as set out in appendix I to this prospectus, and is included for information purpose only.

During the Relevant Periods, the Group entered into certain material on-going transactions with its related parties, principally comprising sale or purchase of lint cotton by the Group; supply of electricity and steam power by Holding Company; sale or purchase of cotton yarns, grey fabrics and denims by the Group; and provision of processing services to the Group, details of which are summarised in section 7 of the accountants' report in appendix I to this prospectus. The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with members of ZCSU prior to the Reorganisation. As such, it is possible that the terms of these transactions are not the same as those that would have been conducted under normal commercial terms with unrelated parties.

Had the above-mentioned material related party transactions been conducted under normal commercial terms by reference to similar transactions conducted with wholly unrelated parties, or insofar as the supply of electricity and steam power is concerned, the terms of the relevant agreement entered into with Holding Company for the supply of the same for a term of 10 years commencing the date of the agreement, the Group expects that it would have had an effect on the Group's overall results of operations for the track record period. For this reason, the Directors consider that the following unaudited pro forma consolidated results for the three-year period ended 31 December 2002 and for the three-month period ended 31 March 2003 (the "Unaudited Pro Forma Consolidated Results") may be a useful supplement to the historical financial information presented in appendix I to this prospectus.

The Unaudited Pro Forma Consolidated Results do not purport to represent what the results of operations of the Group would actually have been if the above-mentioned material related party transactions had in fact conducted in accordance with the basis as set out in the preceding paragraph since the beginning of 2000, or to project the net profit from ordinary activities attributable to shareholders for any future periods. The Unaudited Pro Forma Consolidated Results were prepared by using the same set of principal accounting policies as set out in section 1 of the accountants' report in appendix I to this prospectus and the notional amounts required in preparing the Unaudited Pro Forma Consolidated Results have not been recorded in the underlying accounting records and financial statements of the companies now comprising the Group for the track record period. The Unaudited Pro Forma Consolidated Results should be read in conjunction with the accountants' report as set out in appendix I to this prospectus.

APPENDIX II**ADDITIONAL FINANCIAL INFORMATION**

The Unaudited Pro Forma Consolidated Results of the Group during the Track Record Period are as follows:

	Year ended 31 December			Three-month period ended
	2000	2001	2002	31 March 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,567,903	2,360,293	4,444,837	1,255,579
Cost of sales	<u>(1,267,375)</u>	<u>(1,956,244)</u>	<u>(3,786,723)</u>	<u>(1,015,919)</u>
Gross profit	300,528	404,049	658,114	239,660
Other revenue	(1,402)	15,193	51,607	12,014
Selling and distribution costs	(26,165)	(40,794)	(78,565)	(33,676)
Administrative expenses	(9,490)	(27,212)	(40,189)	(16,227)
Other operating expenses	<u>(11,577)</u>	<u>(9,470)</u>	<u>(19,641)</u>	<u>(4,622)</u>
Profit from operating activities	251,894	341,766	571,326	197,149
Finance costs	<u>(16,500)</u>	<u>(46,009)</u>	<u>(101,506)</u>	<u>(29,882)</u>
Profit before tax	235,394	295,757	469,820	167,267
Tax	<u>(82,499)</u>	<u>(105,260)</u>	<u>(172,518)</u>	<u>(60,554)</u>
Profit before minority interests	152,895	190,497	297,302	106,713
Minority interests	<u>—</u>	<u>(3,397)</u>	<u>(3,191)</u>	<u>(1,000)</u>
Net profit from ordinary activities attributable to shareholders	<u>152,895</u>	<u>187,100</u>	<u>294,111</u>	<u>105,713</u>
Dividend	<u>—</u>	<u>131,326</u>	<u>—</u>	<u>—</u>
Earnings per share — basic (RMB) (note 2)	<u>0.76</u>	<u>0.93</u>	<u>1.03</u>	<u>0.20</u>

Notes:

1. The major notional adjustments required in preparing the above unaudited pro forma consolidated results represent the notional effects arising from:
 - (a) the sale of cotton yarns, grey fabrics and denims to Holding Company and its subsidiaries (other than the companies now comprising the Group, but including Industrial Park before its being a subsidiary of the Company in November 2002) (collectively known as the "Holding Company Group");
 - (b) the purchase of lint cotton and tailings from the ZCSU Group (other than the companies now comprising the Group);
 - (c) the purchase of cotton yarns, grey fabrics from the Holding Company Group;
 - (d) the provision of processing services by the Holding Company Group;
 - (e) the provision of electricity and steam power by Holding Company;
 - (f) the sale of lint cotton and tailings to the Holding Company Group; and
 - (g) the tax effect of the above notional adjustments at the statutory income tax rate of 33% for the respective year/period as described in section 2(f) of the accountants' report in appendix I to this prospectus.
2. The calculation of the above pro forma earnings per share is based on the weighted average number of ordinary shares in issue during the respective year/period used in earnings per share calculation as described in section 2(h) of the accountants' report in appendix I to this prospectus, and the pro forma net profit from ordinary activities attributable to shareholders for the respective year/period as stated above.

The forecast of the consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31st December, 2003 is set out in the section headed “Financial information — Profit forecast” in this prospectus.

1. Bases and assumptions

The forecast of the consolidated profit after tax and minority interests but before extraordinary items of the Group for the year ending 31st December, 2003 prepared by the Directors is based on the audited financial statements of the Group for the three months ended 31st March, 2003, unaudited management accounts of the Group for the three months ended 30th June, 2003 and a forecast of the results of the Group for the six months ending 31st December, 2003. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st December, 2003. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set out in appendix I to the prospectus and is based on the following principal assumptions:

1. There will be no material changes in the existing laws or regulations, government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC, or any of the countries in which the Group carries on business.
2. There will be no material changes in the inflation, interest rates or exchange rate from those prevailing as at the date of the prospectus.
3. There will be no material change in the bases or rates of taxation or duties in Hong Kong, the PRC, or any of the countries in which the Group operates or in which the Group companies are incorporated or registered.

2. Comfort letters

Set out below are texts of the letters, prepared for inclusion in this prospectus, received by the Directors from the Company's auditors and reporting accountants, Ernst & Young, and from the sponsor, BNP Paribas Peregrine Capital Limited, in connection with the forecast of the consolidated profit after taxation and minority interests but before extraordinary items of the Company for the year ending 31st December, 2003 respectively.

(i) *Letter from Ernst & Young*



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

15 September 2003

The Directors
Weiqiao Textile Company Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the consolidated profit after tax and minority interests but before extraordinary items of Weiqiao Textile Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2003 (the "Forecast") as set out in the paragraph headed "Profit Forecast" under the section headed "Financial Information" in the prospectus of the Company dated 15 September 2003 (the "Prospectus"), for which you as directors of the Company are solely responsible. The Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Group for the three months ended 31 March 2003, the unaudited management accounts of the Group for the three months ended 30 June 2003 and a forecast of the results of the Group for the remaining six months of the year ending 31 December 2003 on the basis that the Group had been in existence throughout the entire financial year ending 31 December 2003.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the assumptions made by the directors of the Company as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated 15 September 2003, the text of which is set out in Appendix I to the Prospectus.

This letter is being issued in connection with the filing of the listing of the securities on The Stock Exchange of Hong Kong Limited and is not to be used in connection with the offering pursuant to Rule 144A of the Securities Act of 1933 (as amended) in the United States of America.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

(ii) *Letter from the Sponsor*

BNP PARIBAS PEREGRINE

15th September, 2003

The Directors
Weiqiao Textile Company Limited
No. 34, Qidong Road
Weiqiao Town
Zouping County
Shandong Province
The PRC

Dear Sirs,

We refer to the forecast of the consolidated profit after tax and minority interests but before extraordinary items of Weiqiao Textile Company Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ending 31st December, 2003 (the “Forecast”) as set out in the prospectus of the Company dated 15th September, 2003.

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 15th September, 2003 addressed to you and us from Ernst & Young regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations reviewed by Ernst & Young, we have formed the opinion that the Forecast, for which you as directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BNP Paribas Peregrine Capital Limited
Kenneth Tseung
Executive Director

The following is the text of a letter, summary of values and valuation certificates issued by Chesterton Petty Limited, an independent property valuer, prepared for the purpose of incorporation in this prospectus in connection with its valuation of the property interests held by the Group as at 30th June, 2003.



International Property Consultants

Chesterton Petty Limited
16/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

15th September, 2003

Weiqiao Textile Company Limited
No. 34 Qidong Road
Weiqiao Town Zouping District
Shandong Province
The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Weiqiao Textile Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these properties as at 30th June, 2003.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests in Group I, due to the specific purpose for which the building and structure of the properties have been constructed, there are no readily identifiable market comparable. Thus the building and structure cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define “depreciated replacement cost” for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuing the property interests in Group II which are leased by the Group, we have attributed no commercial value due to the prohibition against assignment or otherwise due to the lack of substantial profit rents.

In valuing land portions of property nos. 1, 2 and 3 in Group I which are leased by the Group from Shandong Weiqiao Textile Group Company Limited, we have attributed no commercial value to the land portions due to the lack of substantial profit rents. According to the opinion of the Group’s PRC legal advisor, Jingtian & Gongcheng, the lease term interests of the aforesaid rented land portions can be freely transferable with the buildings and structures erected thereon in the open market. We have relied on their opinion, attributed values to the buildings and structures of aforesaid properties.

In the course of our valuation, the Group has provided us with copies of the title documents relating to the properties in the PRC. However, we have not inspected the original document to ascertain any amendments that may not appear on the copies handed to us. We have relied on the information given by the Group and its legal advisers, Jingtian & Gongcheng, regarding the titles to the properties in the PRC.

We have relied to a considerable extent on information given by the Group and the legal opinion of the Group's PRC legal advisers. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its PRC legal advisers which is material to the valuation. We have accepted advice given to us by the Group on such matters as easements, tenure, particulars of occupancy, identification of the properties, floor areas, and other relevant information. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the title documents provided to us and are therefore only approximations. No on-site measurements have been made.

We have inspected the exterior, and where possible, the interior of the properties. No structural survey has been made, but in the course of our valuation, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on any properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests in the PRC, we have complied with all the requirements contained in Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise specified, all money amounts stated are in Renminbi. The exchange rate adopted for conversation is HK\$1:RMB1.06 and there has been no material fluctuation of the exchange rate between the valuation date and the date of this letter.

Our summary of values and valuation certificate are attached herewith.

Yours faithfully,
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Executive Director

Note: Charles C K Chan, Chartered Estate Surveyor, M.Sc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), has been a qualified valuer with Chesterton Petty Ltd. since June 1987 and has about 18 years' experience in valuation of properties in Hong Kong and has about 10 years' experience in valuation of properties in the PRC.

SUMMARY OF VALUES

Property	Open market value in existing state as at 30 June 2003 (RMB)	Interest attributable to the Group	Open market value in existing state attributable to the Group as at 30 June 2003 (RMB)
Group I — Property interests held by the Group in the PRC			
1. Portion of First Production Area and the whole Second Production Area 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	455,200,000	100%	455,200,000
2. Portion of First Production Area 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	6,000,000	75%	4,500,000
3. Third Production Area Xi Wai Huan Road West Weiqiao Town Zouping County Shandong Province The PRC	288,100,000	100%	288,100,000
4. 88 Huan Cui Road Hou Shuang Dao Village Chang Zhun Town Huan Cui District Weihai City Shandong Province The PRC	32,500,000	87.20%	28,340,000

APPENDIX IV
PROPERTY VALUATION

Property	Open market value in existing state as at 30 June 2003		Open market value in existing state attributable to the Group as at 30 June 2003	
	(RMB)		(RMB)	
5. West of No 22 Bohai Road Binzhou Industrial Park Binzhou City Shandong Province The PRC	32,000,000	97%	31,040,000	
6. West of Du Dian Town Economic Development Zone Binzhou Industrial Park Binzhou City Shandong Province The PRC	327,300,000	97%	317,481,000	
Group II — Property interest leased by the Group in the PRC				
7. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	No Commercial Value		No Commercial Value	
Grand Total	<u>1,141,100,000</u>		<u>1,124,661,000</u>	

VALUATION CERTIFICATE

Group I — Property interests held by the Group in the PRC

			Open market value in existing state as at 30 June 2003										
Property	Description and tenure	Particulars of occupancy											
1. Portion of First Production Area and the whole Second Production Area 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	<p>The property comprise 67 production and ancillary buildings erected on 3 parcels of land with a total site area of about 368,592.40 sq.m. (3,967,529 sq.ft.) completed in various stages from 1994 to 2001. The details of the 3 parcels of land is listed as follows:</p> <table><tr><th><u>First Production Area</u></th><th><u>Site area (sq.m.)</u></th></tr><tr><td>Land 1</td><td>75,810.94</td></tr><tr><td>Land 2</td><td>144,667.39</td></tr><tr><th colspan="2"><u>Second Production Area</u></th></tr><tr><td>Land 3</td><td>148,114.07</td></tr></table> <p>The total gross floor areas of the 67 production and ancillary buildings are about 606,898.38 sq.m. (6,532,654 sq.ft.).</p> <p>The land use rights of the property are primarily rented for a term commencing from 27 December 2000 and expiring on 27 December 2020 for Land 1, commencing from 10 May 2001 and expiring on 10 May 2021 for Land 2, commencing from 30 September 2002 and expiring on 30 September 2022 for Land 3.</p>	<u>First Production Area</u>	<u>Site area (sq.m.)</u>	Land 1	75,810.94	Land 2	144,667.39	<u>Second Production Area</u>		Land 3	148,114.07	<p>The property is currently occupied by the Group as production workshop and other ancillary facilities.</p>	<p>RMB455,200,000 (100% interest attributable to the Group: RMB455,200,000)</p>
<u>First Production Area</u>	<u>Site area (sq.m.)</u>												
Land 1	75,810.94												
Land 2	144,667.39												
<u>Second Production Area</u>													
Land 3	148,114.07												

Notes:

- Pursuant to the Land Use Right Certificate issued by the Government of Zouping County Zou Guo Yong 2000 Zi No. 0313 (鄒國用(2000)字第0313號) dated 29 May 2000, the title to a parcel of land with an area of about 548,022.74 sq.m. comprising the land portion of the property with an approximate area of 368,592.40 sq.m. located in 34 Qidong Road, Weiqiao Town, Zouping County, Shandong is vested in Shandong Weiqiao Group Company Limited, the controlling shareholder of the Company, ("the Holding Company") for a land use right term commencing from May 2000 and expiring on December 2039 for industrial uses.

2. Pursuant to the lease agreement entered into between the Holding Company and the Company dated 27 December 2000, the Holding Company agreed to lease the land with an area of about 75,810.94 sq.m. located in the First Production Area at 34 Qidong Road, Weiqiao Town, Zouping District, Shandong Province to the Company at an annual rental of RMB454,900 for a lease term commencing from 27 December 2000 and expiring on 27 December 2020.
3. Pursuant to the Certificate of Other Land Use Right (土地他項權利證明書) issued by Zhouping Land Resources Bureau (the "Bureau") in December 2000, the Company leases the land with an area of approximately 75,810.94 sq.m. at an annual rental of RMB454,900 for a term commencing from 27 December 2000 and expiring on 27 December 2020.
4. Pursuant to the lease agreement dated 10 May 2001, the Holding Company agreed to lease the land with an area of about 144,667.39 sq.m. located in the First Production Area at 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province to the Company at an annual rental of RMB868,000 for a land use right term commencing from 10 May 2001 and expiring on 10 May 2021.
5. Pursuant to the Certificate of Other Land Use Right (土地他項權利證明書) issued by the Bureau in May 2001, the Company leases the land with an area of approximately 144,667.39 sq.m. at an annual rental of RMB868,000 for a term commencing from 10 May 2001 and expiring on 10 May 2021.
6. Pursuant to the lease agreement dated 30 September 2002, the Holding Company agreed to lease the land with an area of 148,114.07 sq.m. located in the Second Production Area at 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province at an annual rental of RMB888,700 for a land use right term commencing from 30 September 2002 and expiring on 30 September 2022.
7. Pursuant to the Certificate of Other Land Use Right (土地他項權利證明書) issued by the Bureau in September 2002, the Company leases the land with an area of approximately 148,114.07 sq.m. at an annual rental of RMB888,700 for a term commencing from 30 September 2002 and expiring on 30 September 2022.
8. Pursuant to 15 Building Ownership Certificates all issued by Zouping Real Estate Administration Bureau, the titles to the buildings of the property with an approximate total gross floor area of 606,898.38 sq.m. are vested in the Company.
9. We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- (i) According to the confirmation from the Company as at issuance date of legal opinion, the Company does not own any land but leases 3 parcels of land with an area of 75,810.94 sq.m., 148,114.07 sq.m. and 144,667.39 sq.m. respectively from the Holding Company. Those parcels of leased land are portions of the land registered under the Land Use Right Certificate as mentioned in note 1. The Holding Company has obtained the above-mentioned parcel of land with an area of about 548,022.74 sq.m. by purchasing, with a land use right term commencing from May 2000 and expiring on December 2039 for industrial uses.

Pursuant to the 3 lease agreements as mentioned in note 2, note 4 and note 6, the leased lands are portion of land registered under the Land Use Right Certificate as mentioned in note 1 and the annual rental will be determined according to the market level.

- (ii) The Company is entitled to wholly or partially sub-lease the land complying with the 3 lease agreements as mentioned in note 2, note 4 and note 6 to any third party without obtaining the consent from the Holding Company within their corresponding lease terms. The Holding Company and the Company have also registered the leasing issues in the Bureau.
- (iii) The Holding Company has an intact legal right to use, lease, mortgage and transfer the aforesaid 3 parcels of land. Since the Holding Company and the Company have registered the leasing issues in the Bureau, the 3 lease agreements as mentioned in note 2, note 4 and note 6 are legal, valid and binding to both signing parties. The Company has the right to use the leased lands as production workshop according to the terms and conditions of the aforesaid agreements within the lease terms.

Building

- (i) Pursuant to the Building Ownership Certificates as mentioned in note 8, the title to the buildings of the property with a total gross floor area of about 606,898.38 sq.m., is vested in the Company. Since the Company has obtained the aforesaid certificates and the land use right of the underlying lands through the above-mentioned lease agreements, it has the intact legal right to lease, mortgage, use and transfer the buildings for production purpose.
- (ii) Pursuant to the Mortgage Agreement entered into between the Bank of China Binzhou Branch and the Company dated 26 November, 2002, all the buildings of the property with an area of about 606,898.38 sq.m. is subject to a mortgage in favour of Bank of China Binzhou Branch for a term commencing from 27 July 2002 and expiring on 27 July 2004. The Company has also registered the mortgage in Zouping Real Estate Administration Bureau.
- (iii) Since the Company has legally obtained the ownership of the buildings as mentioned in note 8, it has the right to mortgage the buildings to the Bank of China Binzhou Branch. Besides, the mortgage agreement is legal, valid and binding to both signing parties.

APPENDIX IV

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30 June 2003
2. Portion of First Production Area 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	<p>The property comprises a 1-storey building erected on a parcel of land with a total site area of about 10,115.76 sq.m. (108,886 sq.ft.) completed in 1992.</p> <p>The total gross floor area of the property is about 10,115.76 sq.m. (108,886 sq.ft.).</p> <p>The land use rights for the property is rented for a term of 20 years commencing from 13 September 2002 and expiring on 13 September 2022.</p>	The property is currently occupied by the Group as production workshop.	RMB6,000,000 (75% interest attributable to the Group: RMB4,500,000)

Notes:

- Pursuant to the Land Use Right Certificate issued by the Government of Zouping County Zou Guo Yong 2000 Zi No 0313 (鄒國用(2000)字第0313號), the title to a parcel of land with an area of about 548,022.74 sq.m. comprising the land portion of the property with an approximate area of 10,115.76 sq.m. located in 34 Qidong Road, Weiqiao Town, Zouping County, Shandong is vested in the Holding Company for a land use right term commencing from May 2000 and expiring on December 2039 for industrial uses.
- Pursuant to the lease agreement entered into between the Holding Company and Shandong Luteng Textile Co., Ltd., a 75% owned subsidiary of the Company, (Party B) on 13 September 2002, the Holding Company agreed to lease the land with an area of about 10,115.76 sq.m. to Party B at an annual rental of RMB60,700 for a term commencing from 13 September 2002 and expiring on 13 September 2022.
- Pursuant to the Certificate of Other Land Use Right (土地他項權利證明書) issued by the Bureau dated 13 September 2002, Party B leases the land with an area of approximately 10,115.76 sq.m. at an annual rental of RMB60,700 for a term commencing from 13 September 2002 and expiring on 13 September 2022.
- Pursuant to the Building Ownership Certificate Binzhou Shi Fang Quan Zheng Zou Ping Xian Zi Di Wei Qiao Gong No 7 (濱州市房權證鄒平縣字第魏橋公7號) issued by Zouping Real Estate Administration Bureau on 25 February 2003, the title to the buildings of the property with a total gross floor area of about 10,115.76 sq.m., is vested in Party B.
- We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- According to the confirmation from Party B as at issuance date of the legal opinion, Party B does not own any land but leases a parcel of land with an area of 10,115.76 sq.m. from the Holding

Company. The parcel of leased land is portion of the land registered under the Land Use Right Certificate as mentioned in note 1. The Holding Company has obtained the above-mentioned parcel of land with an area of about 548,022.74 sq.m. by purchasing, with a land use right term commencing from May 2000 and expiring on December 2039 for industrial uses.

Pursuant to the lease agreement as mentioned in note 2, the leased land is portion of land registered under the Land Use Right Certificate as mentioned in note 1 and the annual rental will be determined according to the market level.

- (ii) Party B is entitled to wholly or partially sub-lease the land complying with the lease agreement as mentioned in note 2 to any third party without obtaining the consent from the Holding Company within the lease term. The Holding Company and Party B have also registered the lease in the Bureau.
- (iii) The Holding Company has an intact legal right to use, lease, mortgage and transfer the aforesaid parcel of land. Since the Holding Company and Party B have registered the above-mentioned leasing issues in the Bureau, the leasing agreement as mentioned in note 2 is legal, valid and binding to both signing parties. Party B has the right to use the leased land as production workshop according to the terms and conditions of the aforesaid agreement within the lease term.

Building

- (i) Pursuant to the Building Ownership Certificate as mentioned in note 4, the title to the building of the property with a gross floor area of about 10,115.76 sq.m., is vested in Party B. Since Party B has obtained the aforesaid certificate and the land use right of the underlying land through the above-mentioned lease agreement, it has the intact legal right to lease, mortgage, use and transfer the building for production purpose.

APPENDIX IV

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30 June 2003
3. Third Production Area Xi Wai Huan Road West Weiqiao Town Zouping County Shandong Province The PRC	The property comprise 32 production and ancillary buildings erected on a parcel of land with a site area of about 250,510.11 sq.m. (2,696,491 sq.ft.) completed between 2001 and 2002. The total gross floor areas of the 32 production and ancillary buildings are about 320,670.98 sq.m. (3,451.70 sq.ft.). The land use rights of the property is rented for a term of 20 years commencing from 14 May 2003 and expiring on 14 May 2023 for industrial uses.	The property is currently occupied by the Group as production workshop and other ancillary facilities.	RMB288,100,000 (100% interest attributable to the Group: RMB288,100,000)

Notes:

- Pursuant to the Land Use Right Certificate issued by the Government of Zouping County Zou Guo Yong 2003 No. (03) 0131 (鄒國用(2003)第(03)0131號) dated 15 July 2003, the title to a parcel of land with an area of about 250,510.11 sq.m. located in Xi Wai Huan Road West, Weiqiao Town, Zouping County, Shandong is vested in the Holding Company for a land use right term expiring on 6 June 2053 for industrial uses.
- Pursuant to the lease agreement entered into between the Holding Company and the Company dated 14 May 2003, the Holding Company agreed to lease the land with an area of about 250,510.11 sq.m. located in Xi Wai Huan Road West, Weiqiao Town, Zouping County, Shandong to the Company at an annual rental of RMB1,503,000 for a term commencing from 14 May 2003 and expiring on 14 May 2023.
- Pursuant to 7 Building Ownership Certificates all issued by Zouping Real Estate Administration Bureau, the titles to the buildings of the property with an approximate total gross floor area of 320,670.98 sq.m. are vested in the Company.
- We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- According to the confirmation from the Company as at issuance date of legal opinion, the Company does not own any land but leases a parcel of land with an area of 250,510.11 sq.m. from the Holding Company. The parcel of land is registered under the Land Use Right Certificate as mentioned in note 1. The Holding Company has obtained the above-mentioned parcel of land with an area of about 250,510.11 sq.m. by purchasing, with a land use right term for 50 years for industrial uses.
- Pursuant to the lease agreement as mentioned in note 2, the leased land is portion of land registered under the Land Use Right Certificate as mentioned in note 1 and the annual rental will be determined according to the market level.

- (iii) The Company is entitled to wholly or partially sub-lease the land to any third party without obtaining the consent from the Holding Company within the lease term. The Holding Company and the Company have also registered the leasing issues in the Bureau.
- (iv) The Holding Company has an intact legal right to use, lease, mortgage and transfer the aforesaid parcel of land. Since the Holding Company and the Company have registered the leasing issues in the Bureau, the lease agreement as mentioned in note 2 is legal, valid and binding to both Signing parties. The Company has the right to use the leased land as production workshop according to the terms and conditions of the aforesaid agreement within the lease term.

Building

- (i) Pursuant to the Building Ownership Certificates as mentioned in note 3, the title to the buildings of the property with a total gross floor area of about 320,670.98 sq.m., is vested in the Company. Since the Company has obtained the aforesaid certificates and the land use right of the underlying lands through the above-mentioned lease agreement, it has the intact legal right to lease, mortgage, use and transfer the buildings for production purpose.

APPENDIX IV
PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30 June 2003
4. 88 Huan Cui Road Hou Shuang Dao Village Chang Zhun Town Huan Cui District Weihai City Shandong Province The PRC	The property comprise 8 production and ancillary buildings erected on a parcel of land with a total site area of about 55,390 sq.m. (596,218 sq.ft.) completed in 2001. The total gross floor area of the 8 production and ancillary buildings is about 36,695.00 sq.m. (394,985 sq.ft.). The land use rights of the property is held for a land use term commencing from 14 July 2000 and expiring on 9 January 2047 for industrial uses.	The property is currently occupied by the Group as production workshop and other ancillary facilities.	RMB32,500,000 (87.2% interest attributable to the Group RMB28,340,000)

Notes:

- Pursuant to the Land Use Right Certificate Wei Huan Guo Yong (2000) Chu Zi No. 105 (威環國用(2000)出字第 105 號) issued by Government of Weihai Huancui District on 14 July 2000, the title to the land with an area of 55,390 sq.m. is vested in Weihai Weiqiao Textile Company Limited, a 87.2% owned subsidiary of the Company, (Party C) for a land use term commencing from 14 July 2000 and expiring on 9 January 2047 for industrial uses.
- Pursuant to the Certificate of Other Land Use Right Wei Huan Ta Xiang (2002) Zi No. 033 (土地他項權利證明書) issued by Land Administration Bureau of the State dated 28 August 2002, the parcel of land as mentioned in note 1 is subject to a mortgage in favour of Bank of Communications Weihai Branch for a term commencing from 28 August 2002 and expiring on 30 August 2005.
- Pursuant to 8 Building Ownership Certificates all issued by Weihai Real Estate Administration Bureau dated 21 July 2003, the title to the buildings of the property with an approximate total gross floor area of 36,695.00 sq.m. are vested in Party C.
- We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- According to the confirmation from the Company, Party C owns a parcel of land with an area of about 55,390 sq.m. located in Hou Shuang Dao Village, Chang Zhun Town, Huancui District, Weihai City, Shandong Province by purchasing and obtained the Land Use Right Certificate as mentioned in note 1. Party C has an intact legal right to use, lease, mortgage and transfer the aforesaid parcel of land within the land use right term for production purposes.
- Pursuant to the Mortgage Agreement entered into between Bank of Communications Weihai Branch and Party C dated August 2002, the above-mentioned parcel of land is subject to a mortgage in favour of Bank of Communications Weihai Branch for a term commencing from 28

August 2002 and expiring on 30 August 2003. Party C should inform the Bank of Communications Weihai Branch prior to the transfer of land use right of the aforesaid parcel of land; or otherwise the transfer would be regarded as void. The aforesaid Mortgage Agreement is legal, valid and binding to both signing parties.

- (iii) Pursuant to the Certificate of Other Land Use Right (土地他項權利證明書) as mentioned in note 2 issued by Land Administration Bureau of Weihai dated 28 August 2002, Party C has registered the mortgage issues in the Bureau.

Building

- (i) Pursuant to the Building Ownership Certificates as mentioned in note 3, the title to the buildings of the property with a total gross floor area of about 36,695.00 sq.m. is vested in Party C. Since Party C has obtained the aforesaid certificates and the land use right of the underlying lands, it has an intact legal right to lease, mortgage, use and transfer the buildings for production purpose.

APPENDIX IV

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30 June 2003
5. West of No 22 Bohai Road Binzhou Industrial Park Binzhou City Shandong Province The PRC	<p>The property comprises 15 production and ancillary buildings erected on a parcel of land with a site area of about 113,991.00 sq.m. (1,226,999 sq.ft.) completed in 2002.</p> <p>The total gross floor area of the 15 production and ancillary buildings is about 8,241.84 sq.m. (88,715.17 sq.ft.).</p> <p>The land use right of the property is held for a land use right term commencing from 10 March 2003 and expiring on 22 September 2052 for industrial uses.</p>	The property is occupied by the Group as production workshop and other ancillary facilities.	RMB32,000,000 (97% interest attributable to the Group: RMB31,040,000)

Notes:

- Pursuant to the Land Use Right Certificate Bin Guo Yong (2003) Zi No. 5258 (濱國用(2003)第5258號) issued by the Government of Binzhou on 10 March 2003, the title to the land with an area of 113,991.00 sq.m. is vested in Binzhou Weiqiao Technology Industrial Park Co. Ltd., a 97% owned subsidiary of the Company, (Party D) for a land use term commencing from 10 March 2003 and expiring on 22 September 2052 for industrial uses.
- According to the confirmation from Binzhou Real Estate Administration Bureau dated 14 April 2003, the title to buildings with a gross floor area of 8,241.84 sq.m. is legally vested in Party D, and there is no legal impediment in obtaining the Building Ownership Certificate for the aforesaid buildings.
- Pursuant to the Permit for Construction and Land Use No. (2002) 1501086 issued by Binzhou Construction and Planning Bureau dated 30 June, 2002, the construction complies with the relevant town planning regulations.
- Pursuant to the Permit for Construction and Planning No. (2002) 088 issued by Binzhou Construction and Planning Bureau dated 5 December, 2002, Party D is permitted to construct the property on a site located in Binzhou Economic Development Zone.
- We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- According to the confirmation from the Company, Party D owns a parcel of land with an area of about 113,991 sq.m. located in West of Du Dian Town, Economic Development Zone, Binzhou City, Shandong Province for a land use right term commencing from 10 March 2003 and expiring on 22 September 2052 by purchasing and obtained the Land Use Right Certificate as mentioned in note 1. Party D has an intact legal right to use, lease, mortgage and transfer the aforesaid parcel of land within the land use right term for production purposes.

Building

- (i) According to the confirmation from Party D, construction work with a gross floor area of about 8,241.84 sq.m. was completed by 31 March 2003 and the Building Ownership Certificate is under application.
- (ii) According to the confirmation from Binzhou Real Estate Administration Bureau as mentioned in note 2, there is no legal impediment for Party D to obtain Building Ownership Certificates for the property constructed by it. Besides, Party D also has the right to use, lease, mortgage and transfer the property.
- (iii) According to the relevant permits mentioned in note 3 and note 4, approvals for planning and construction of the buildings erected upon the site has been obtained.

APPENDIX IV

PROPERTY VALUATION

				Open market value in existing state as at 30 June 2003
Property	Description and tenure	Particulars of occupancy		
6. West of Du Dian Town Economic Development Zone Binzhou Industrial Park Binzhou City Shandong Province The PRC	<p>The property comprises 14 completed production and ancillary buildings erected on a parcel of land with a site area of about 420,137 sq.m. (4,522,355 sq.ft.).</p> <p>The total gross floor area of the 14 production and ancillary buildings is about 359,605.64 sq.m. (3,870,795 sq.ft.).</p> <p>The property is held under a land use right for a term commencing from 19 February 2003 and expiring on 28 April 2051 for industrial uses.</p>	The property is occupied by the Group as production workshop and other ancillary facilities.		RMB327,300,000 (97% interest attributable to the Group: RMB317,481,000)

Notes:

- Pursuant to the Land Use Right Certificate Bin Guo Yong (2003) No. 5227 (濟國用(2003)第 5227號) issued by the Government of Binzhou, the title to the land with an area of about 420,137 sq.m. is vested in Binzhou Weiqiao Technology Industrial Park Co., Ltd., a 97% owned subsidiary of the Company, (Party D) for a land use right term commencing from 19 February 2003 and expiring on 28 April 2051 for industrial uses.
- According to the confirmation from Binzhou Real Estate Administration Bureau dated 14 April 2003, the title to buildings with a gross floor area of 153,900.26 sq.m. is legally vested in Party D; and there is no legal impediment in obtaining the Building Ownership Certificates for the aforesaid buildings.
- According to the confirmation from Binzhou Real Estate Administration Bureau dated 11 July 2003, the title to the buildings with a gross floor area of 205,705.38 sq.m. is legally vested in Party D, and there is no legal impediment in obtaining the Building Ownership Certificates for the aforesaid buildings.
- Pursuant to the Permit for Construction and Land Use No. (2001) 1501090 (建築工程施工許可証) issued by Binzhou Construction and Planning Bureau dated 8 September, 2002, the construction complies with the relevant town planning regulations.
- Pursuant to the Permit for Construction and Planning No. (2001) (建設工程規劃許可証) 080 issued by Binzhou Construction and Planning Bureau dated 8 September 2001, Party D is permitted to construct the property on a site located in Binzhou Economic Development Zone.
- We have been provided with a copy of legal opinion on the title to the property by Jingtian & Gongcheng, which contains, inter alia, the following information:

Land

- According to the confirmation from the Company, Party D owns a parcel of land with an area of about 420,137 sq.m. located in West of Du Dian Town, Economic Development Zone, Binzhou

City, Shandong Province for a land use right term commencing from 19 February 2003 and expiring on 28 April 2051 by purchasing and obtained the Land Use Right Certificate as mentioned in note 1. Party D has an intact legal right to use, lease, mortgage and transfer the aforesaid parcel of land within the land use right term for production purposes.

Building

- (i) According to the confirmation from Party D, construction work with a gross floor area of about 359,605.64 sq.m. has been completed by 31 March 2003 and the Building Ownership Certificate is under application.
- (ii) According to the confirmation from Binzhou Real Estate Administration Bureau as mentioned in note 2 and note 3, there is no legal impediment for Party D to obtain Building Ownership Certificate for the property. Besides, Party D also has the right to use, lease, mortgage and transfer the property.
- (iii) According to the relevant permits mentioned in note 4 to note 5, approvals for planning and construction of the buildings erected upon the site have been obtained.

Group II — Property interest leased by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30 June 2003
7. 34 Qidong Road Weiqiao Town Zouping County Shandong Province The PRC	<p>The property comprises a room with a total gross floor area of 3,000 sq.m. (32,292 sq.ft.) in a 5-storey building standing on a site located at 34 Qidong Road.</p> <p>The property is subject to a lease agreement for a term of 6 years commencing from 10 May 2000 and expiring on 10 May 2006.</p>	The property is currently occupied by the Group as office.	No Commercial Value

Notes:

1. Pursuant to the Building Ownership Certificate Bin Zou Di Qu Fang Quan Zheng Zou Ping Xian Zi Di Wei Qiao Gong No 2(1) (鄒平縣字第魏橋公 2-1號) issued by Zouping Real Estate Administration Bureau, dated 27 December 1999, the title to the 5-storey building with a gross floor area of about 6,188.60 sq.m., is vested in the Holding Company.
2. Pursuant to the Real Estate Leasing Permit Zhou (2003) Fang Di Zu Zheng No 062 dated 21 April 2003 issued by Shandong City Construction Committee, the property with a gross floor area of approximately 3,000 sq.m. which is leased by the Company from the Holding Company, meet the State's leasing standards and requirements and is permitted to be leased. The validity of the Permit commences from 21 April 2003 and expires on 21 April 2004.
3. Pursuant to the Lease Agreement entered into between the Holding Company and the Company on 10 May 2000, the Holding Company agreed to lease the room with a gross floor area of 3,000 sq.m. of the aforesaid 5-storey building for a term of 6 years commencing from 10 May 2000 at an annual rental of RMB600,000. The leasing issues have been registered in Zouping Real Estate Administration Bureau and the Real Estate Leasing Permit as mentioned in note 2 has been obtained.
4. We have been provided with a copy of legal opinion on the title of the property by Jingtian & Gongcheng, which contains, inter alia, the following information:
 - (i) Pursuant to the Building Ownership Certificate as mentioned in note 1, the title to the 5-storey building is vested in the Holding Company.
 - (ii) Since the Holding Company has registered the above-mentioned leasing issues in the Zouping Real Estate Administration Bureau and the Real Estate Leasing Permit as mentioned in note 2 has been obtained, the leasing agreement as mentioned in note 3 is legal, valid and binding to both signing parties. The Holding Company has the right to lease and the Company has the right to use the leased property as office according to the terms and conditions of the aforesaid agreement within the lease term.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

(a) Legal System

The PRC legal system is based on the PRC constitution and is made up of written laws, administrative regulations, government directives and local rules and regulations. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance. The NPC and the Standing Committee of the NPC are empowered by the PRC constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC constitution and enact and amend basic laws governing relevant administrative, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC. The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulatory documents within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not conflict with the PRC constitution and the national laws enacted by the NPC. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives or orders. At the regional level, the People's Congress of provinces and large cities approved by the State Council ("large cities") and their respective standing committees may enact local rules and regulations and the local provincial government may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations cannot be in conflict with the PRC constitution, the national laws and the administrative rules and regulations promulgated by the State Council. Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level. The power to interpret laws is vested by the PRC constitution in the Standing Committee of the NPC. According to 全國人民代表大會常務委員會關於加強法律解釋工作的決議 (the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are

also vested with the power to give interpretation of the rules and regulations which they have promulgated. At the regional level, the power to give interpretations of the regional rules and regulations is vested in the regional legislative and administration organs which promulgate such rules and regulations.

(b) **Judicial System**

The people's courts are the judicial organs of the PRC. Under 中華人民共和國法院組織法 (the Law of Organisation of the People's Courts of the PRC), the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division) in accordance with needs. The judicial work of people's courts at lower levels is subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the criminal proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgement or order, appeal against the judgement or order of the first instance of a local people's court to the people's court at the next higher level. Judgements or orders of the second instance of the higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by 中華人民共和國民事訴訟法 (the Civil Procedure Law of the PRC) (the "Civil Procedure Law") adopted on 9th April, 1991 which prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the court procedures, and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign citizen or foreign enterprise is given the same litigation

rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement, order or award. Time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgement which the court has granted approval to enforce within the stipulated time, the court will, upon application of the counter party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. If the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition and enforcement, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with such treaties of the principle of reciprocity unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or security, or for reasons of social and public interest.

(c) Arbitration and Enforcement of Arbitral Awards

中華人民共和國仲裁法 (the Arbitration Law of the PRC) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court. The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and the directors, supervisors, manager or other officers of the company; or (iii) a holder of overseas listed foreign shares and a holder of domestic shares, unless

otherwise specified in the articles of association, such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Centre (“HKIAC”) for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by laws or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“New York Convention”) adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. However, following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and PRC has been signed on 21st June, 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day’s needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in PRC. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People’s Court of the PRC and became effective on 1st February, 2000.

(d) **Taxation**(a) *Taxes Applicable to Joint Stock Limited Companies*

(i) Enterprise Income Tax

From 1st January, 1994, income taxes applicable to joint stock limited companies are governed by 中華人民共和國企業所得稅暫行條例 (the Interim Regulations of the Enterprise Income Tax of the PRC) (the “Tax Regulations”) promulgated by the State Council on 13th December, 1993. The Tax Regulations provide that state-owned enterprises, collectively owned enterprises, private enterprises, joint ventures and joint stock limited enterprises engaged in production, businesses and other income producing enterprises are liable to pay income tax at the rate of 33% on their taxable incomes except that where, in relation to particular categories of enterprises, existing laws, administrative regulations or any other relevant regulations promulgated by the State Council provide for tax privilege and tax reduction policy.

(ii) Value-Added Tax

Pursuant to 中華人民共和國增值稅暫行條例 (the Interim Regulations of the PRC on Value-Added Tax) effective from 1st January, 1994 and 中華人民共和國增值稅暫行條例實施細則 (the Implementing Rules of the Interim Regulations of the PRC on Value-Added Tax) effective from 1st January, 1994, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

(b) *Taxation of shareholders*

(i) Tax on Dividends

On 21st July, 1993 the State Tax Bureau has by a notice 關於外商投資企業、外國企業和外籍個人取得股票權轉讓收益和息所得稅收問題的通知 (the Notice Relating to Taxes Applicable to Foreign Investment Enterprises, Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (the “Tax Notice”)) confirmed that dividends received by foreign investors from PRC listed domestic shares, and overseas listed shares such as H shares were exempted from withholding tax, which would otherwise have been applicable at a rate of 20%.

On 31st October, 1993 關於修改《中華人民共和國個人所得稅法》的決定 (the Amendments to the Income Tax Law Applicable to Individuals of the PRC) (the “Amendments”) were promulgated taking effect from 1st January, 1991. The Amendments stipulate that all previously announced taxation laws and

regulations which contradict the Amendments shall be invalid. Under the Amendments, any foreign national who is not a resident in the PRC will be subject to a withholding tax on dividends received from H shares at a rate of 20%. On 26th July, 1994, the State Tax Bureau issued a letter titled 國家稅務總局關於外籍個人持有中國境內上市公司股份所得的股息有關稅務問題的函 (the State Tax Bureau Notice on Relevant Tax Problems Regarding Foreign Individuals' Dividends Obtained from Holding Shares of Listed Companies Within China) (the "Tax Notice") the State Tax Bureau reiterated the temporary exemption for withholding tax stated in the Tax Notice for dividends received from a PRC company listed overseas.

Accordingly, under current PRC laws and regulations, the withholding tax is not payable in respect of dividends or other distributions on H shares held by any foreign enterprise or foreign national. If, however, the Tax Notice is withdrawn, a 20% withholdings tax may be applied on such dividends or distributions, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(ii) Tax Treaties

In the event that withholding tax is payable as referred to in (i) above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into double taxation treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to double taxation treaties with a number of countries which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

(iii) Stamp Duty

By virtue of 股份制試點企業有關稅收問題的暫行規定 (the Interim Regulations Concerning Taxation Issues for Joint Stock Trial Enterprises) and 中華人民共和國印花稅暫行條例 (the Interim Regulations of the PRC Concerning Stamp Duty) taking effect on 1st October, 1988, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, this is not applicable for H shares which are dealt by non PRC investors outside the PRC.

(iv) Estate, Inheritance or Gift Tax

The PRC does not currently have any estate, inheritance or gift tax.

(e) Foreign Exchange Control

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28th December, 1993, the PBOC, with the authorisation of the State Council, issued 中國人民銀行關於進一步改革外匯管理體制的公告 (the Notice on Further Reform of the Foreign Exchange Control System) which came into effect on 1st January, 1994. Other new regulations and implementation measures include 結匯、售匯及付匯管理暫行規定 (the Provisional Regulations on the Foreign Exchange Settlement, Sale and Payments) which were promulgated on 20th June, 1996 and took effect on 1st July, 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by enterprises, individuals, foreign organisations and visitors in the PRC. Under these new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system largely based on supply and demand was introduced. The PBOC publishes the Renminbi exchange rate against the U.S. dollar daily. Such rate is to be set by reference to the Renminbi/U.S. dollar trading price on the previous day on the inter-bank foreign exchange market.

The foreign exchange earnings of all PRC enterprises, other than those either derived by enterprises with foreign investment interests or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not be sold to designated banks, but may need to be kept in foreign exchange bank accounts of designated banks. At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, enterprises with foreign investment may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, enterprises may purchase foreign exchange from designated banks. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate. Foreign exchange quota of the relevant entities under the old system will be gradually phased out. Remaining foreign exchange quota may be converted into foreign exchange through designated foreign exchange banks.

中國外匯交易中心 (the China Foreign Exchange Trading Centre) ("CFETC") was formally established and came into operation on 1st January, 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an inter-bank market in which designated PRC banks can trade and settle their foreign currencies. The establishment of CFETC was originally intended to coincide with the elimination of swap centres. The swap centres have, however, been retained as an interim measure and

enterprises with foreign investment are currently required to enter into exchange transactions only through the swap centres, rather than through designated PRC banks, upon obtaining the approval of SAFE or its local office where the swap centres are located.

關於境外上市企業外匯管理若干問題的通知 (The Notice Concerning Some Issues Relating to Exchange Control of Overseas Listed Enterprises) was jointly issued by CSRC and SAFE on 13th January, 1994. The Notice provides that:

- upon the approval of SAFE, an overseas listed enterprise may open a foreign exchange account at a bank within the PRC to retain foreign currency proceeds received from overseas share offers;
- within 10 days after receiving the foreign currency proceeds of the share offer, the enterprise should transfer such proceeds into a PRC bank account;
- upon approval of SAFE, the enterprise may remit abroad the foreign exchange from its foreign currency bank account to foreign investors outside the PRC for the purpose of payment of dividends or other profit distribution; and
- if 25% or more of the share capital of the enterprise is held by foreign investors, such enterprise may apply to MOFTEC for foreign investment enterprises status, and upon approval of MOFTEC, the foreign exchange matters of such enterprises shall be handled in accordance with foreign exchange regulations governing foreign investment enterprises.

關於進一步完善境外上市外匯管理有關問題的通知 (The Notice Concerning Further Upgrading of Foreign Exchange Control of Overseas Listed Enterprises) jointly issued by CSRC and SAFE on 5th August, 2002. The Notice provides that:

- within 30 days after the approval of the CSRC for the overseas issue of shares listing, a domestic enterprise holding shares of the overseas listed enterprise should proceed with the foreign exchange registration procedures at local administration authority for foreign exchange in respect of the overseas listed shares;
- within 30 days after receiving the foreign currency proceeds of the share offer, the overseas listed enterprise should transfer the balance of the foreign currency proceeds received to the PRC, after deducting the related expenses, and should not retain the proceeds overseas without the approval of local administration authority for foreign exchange. The transferred funds shall be administered as direct investment funds of the foreign investor, and subject to approval by local administration authority for foreign exchange, a special account may be opened to retain the funds, which may be used for foreign exchange settlements;

- before the proceeds are transferred to the PRC, if the overseas listed enterprise need to open an overseas account for temporary deposit of the proceeds, application can be made to local administration authority for foreign exchange to open an overseas special foreign exchange account, with a maximum time limit of three months from the date of the opening of the account;
- in the event the overseas listed enterprise is required to repurchase the company's own overseas listed foreign shares, approval should be obtained from CSRC, after which application should be made for foreign exchange registration changes in respect of the overseas listed shares and the related opening of account overseas and approval for the remittance of funds.

(f) **PRC Company Law**

On 29th December, 1993, the NPC promulgated the PRC Company Law which came into effect on 1st July, 1994. Before implementation of the PRC Company Law, the formation and regulation of joint stock limited companies were governed by 股份有限公司規範意見 (the Standard Opinion for Joint Stock Companies) ("Standard Opinion") promulgated by the State Restructuring Commission on 15th May, 1992. The Standard Opinion was superseded by the PRC Company Law. The legal status of joint stock limited companies established pursuant to the Standard Opinion is preserved and these companies are required to conform to the provisions of the PRC Company Law and conduct standardisation pursuant to the Company Law before 31st December, 1996. The Special Regulations were passed by the State Council on 4th July, 1994 pursuant to Articles 85 and 155 of the PRC Company Law. On 27th August, 1994, the Mandatory Provisions which must be incorporated in the articles of association of all PRC joint stock limited companies to be listed overseas were jointly promulgated by the Securities Commission and the State Restructuring Commission. The Mandatory Provisions were supplemented by 關於到香港上市公司對公司章程作補充修改的意見函 (the Letter on the Opinion Regarding the Supplemental Amendments to the Articles of Association of Companies to be listed in Hong Kong) ("Supplemental Amendments") jointly promulgated by the Securities Commission and the State Restructuring Commission. The Mandatory Provisions as supplemented by the Supplemental Amendments have been incorporated in the Articles of Association.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions as supplemented by the Supplemental Amendments:

(i) *General*

The PRC Company Law governs two types of companies, namely companies incorporated in the PRC with limited liability and companies incorporated in the PRC as a joint stock limited company. Both types of companies have the status of an enterprise legal person. The liability of shareholders of a limited liability company is

limited to the extent of the amount of capital contributed by them and the company is liable to its creditors to the full amount of the assets owned by it. A joint stock limited company is a company having a registered share capital divided into shares of equal par value. The liability of its shareholders is limited to the extent of the amount of shares subscribed by them and the company is liable to its creditors to the full amount of all the assets owned by it. A company may invest in other limited liability companies and joint stock limited companies. Apart from investment companies and holding companies authorised by the State Council, the amount of a company's aggregate investment in other joint stock limited companies and limited liability companies may not exceed 50% of its net assets. The Mandatory Provisions provide that a company may, subject to the approval of the company's supervisory department, operate as a holding company. References below to "company" are to a joint stock limited company incorporated under the PRC Company Law with overseas listed foreign shares to be directly offered and listed in Hong Kong.

(ii) *Incorporation*

Under the PRC Company Law, a company may be incorporated by either the promotion method or the subscription method. The entire issued shares of a company incorporated by the promotion method must be subscribed by the promoters. If a company is established by the public subscription method, not less than 35% of the issued shares of the company must be subscribed by its promoters, the remaining issued shares must be offered for subscription by the public. Under the PRC Company Law, the establishment of a company, regardless of the method of incorporation, requires a minimum of five promoters with at least half of the promoters residing in the PRC. A State owned enterprise which is restructured into a joint stock limited company by the public subscription method may have less than five promoters. Under the Special Regulations, a State owned enterprise or an enterprise with the majority of its assets owned by the State can be restructured in accordance with the relevant regulations to become a joint stock limited company and may offer shares for subscription by overseas investors. If such a company is established by the promotion method, there may be less than five promoters and the company may issue new shares once incorporated.

(iii) *Procedures for Establishment of Companies*

The establishment of a company must be approved by the relevant governmental departments authorised by the State Council or by the relevant provincial people's government. In respect of a company established by the promotion method, the promoters shall elect the board of directors and the members of the supervisory committee after they have paid up in full (in cash or in kind) the amount of shares

subscribed by them. The board of directors of the company shall submit the supporting documents such as the company's articles of association and the capital verification report to the State Administration of Industry and Commerce ("SAIC") or Provincial Administration of Industry and Commerce ("PAIC") for registration of the company.

In respect of a company established by the public subscription method, the promoters must deliver to the relevant securities administration authority an application for public offering together with other supporting documents including (1) the draft articles of association; (2) prospectus; (3) particulars of receiving banker; (4) name of underwriters; and (5) the underwriting agreement. The promoters may proceed with the public offering of shares only after the approval of the relevant securities administration authority has been obtained. An inaugural meeting of the company shall be convened by the promoters within 30 days after the shares have been paid up in full. Matters required to be transacted at the inaugural meeting include the adoption of the company's articles of association, the election of directors, the election of members of the supervisory committee and the review of the value attributed to the assets injected by the promoters into the company in return for its shares. The board of directors of the company is required to submit the requisite documents to the SAIC or PAIC for registration of the company within 30 days after the inaugural meeting. The date of establishment of a company is the day when its business licence is issued by the SAIC or PAIC.

(iv) *Responsibilities of promoters*

Under the PRC Company Law, the promoters of a company are jointly and severally liable for:

- (1) the payment of expenses and liabilities incurred in connection with the establishment of the company if the company cannot be incorporated;
- (2) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and
- (3) damages suffered by the company as a result of the default of the promoters in the course of the incorporation of the company.

According to 股票發行及交易管理暫行規定 (the Provisional Regulations Concerning the Issue and Trading of Shares) (the "Provisional Regulations") promulgated by the State Council on 22nd April, 1993, the promoters of a company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

(v) *Shares*

(aa) Registered capital

The registered capital of a company is the total paid up capital of the company registered with the SAIC or PAIC. The minimum registered capital of a company is RMB10,000,000. A company, the shares of which are authorised by the relevant securities administration authority to list on a stock exchange, must have a registered capital of not less than RMB50,000,000. The registered capital of a company shall be divided into shares of equal par value. A company's subscribers may subscribe for shares in cash or by way of injection of assets, industrial property rights, non-patented technology and land use rights provided that shares subscribed for by way of injection of industrial property rights and non-patented technology shall not exceed 20% of the registered capital of a company. Where shares are allotted in return for injection of assets, the assets must be valued and the title of the assets verified before injection.

(bb) Allotment and issue of shares

The issue of shares must be based on the principles of transparency, equality and fairness. The same class of shares must carry equal rights. Where shares are issued at the same time, the terms (including the subscription price) of allotment of each share must be identical to the others of the same class. Shares may be issued at par or at a premium but may not be issued below the par value.

(cc) Registered or bearer shares

Shares may be issued in registered form or bearer form. Shares issued to promoters, State-designated investment institutions and legal persons must be in registered form and may not be held in the names of nominees. Shares issued to the public may be in registered or bearer form. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form, denominated in Renminbi and subscribed for in foreign currency. Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors including investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as "overseas listed foreign shares", and those shares issued to investors within the PRC other than the territories specified above are known as "domestic shares". A company may offer its shares to the overseas public with approval of the securities administration department of the State Council. The State Council is empowered to prescribe detailed measures in connection with any such offer of shares. In addition to providing for the number of shares to be underwritten, an underwriting agreement may, subject to the prior approval of the Securities Commission, make provisions to set aside up to 15% of the overseas listed foreign shares as part of the total number of shares to be offered under the Special Regulations.

A register of shareholders shall be maintained by the company in respect of shares issued in registered form. Information such as the particulars of shareholders, number of shares held by each shareholder and the dates on which the shareholders became holders of the relevant shares are required to be entered into the register. A company is required to record the amount of bearer shares issued, the number designated to each bearer share and the date of issue of each bearer share.

(vi) *Increase of share capital*

Under the PRC Company Law, a company may increase its share capital by means of an issue of new shares subject to the following:

- (1) the immediately preceding issue of shares has been subscribed in full and at least a year has elapsed since the date of the immediately preceding share offer but under the Special Regulations, if a company increases its capital by way of an issue of overseas listed foreign shares, the time period elapsed since the last share offer may be less than 12 months;
- (2) the company has made a profit in each of the three financial years preceding the new issue of shares and is in a position to distribute dividends to shareholders;
- (3) the financial and accounting statements of the company in the three financial years immediately preceding the new issue of shares do not contain any false information; and
- (4) the expected dividend yield of the company is in excess of the interest rate of bank deposits for the same period.

An issue of shares shall be approved by shareholders in general meeting. After the shareholders' approval has been obtained, the board of directors of the company shall also obtain the approval of the authorised department of the State Council or that of the provincial people's government. If a company issues shares by way of an offer to the public, the approval of the relevant securities administration authority will also have to be obtained. Upon completion of the subscription of new shares, the company must register the increase in registered capital with the SAIC or PAIC and issue a public notice.

(vii) Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (1) the company shall prepare a balance sheet and financial statement;
- (2) the reduction of registered capital must be approved by shareholders in general meeting;
- (3) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (4) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (5) the company must apply to the SAIC or PAIC for registration of the reduction in registered capital.

(viii) Repurchase of shares

A company may not acquire its own shares except in cases where a company effects a cancellation of shares due to a reduction in registered capital or a merger with another company which holds shares in the company or such other purpose permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining the necessary approvals in accordance with the articles of association of a company and that of the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on a stock exchange or by way of an off market contract. Under the PRC Company Law, within 10 days following a repurchase of a company's own shares, a company must in accordance with the applicable law and regulations cancel the portion of the shares repurchased, change its registration particulars and issue a public notice.

(ix) Transfer of shares

Shares may be transferred in accordance with the relevant law and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner

specified by the applicable law and regulations. Shares issued to promoters may not be transferred within three years since the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company. There is no restriction under the PRC Company Law as to the percentage shareholding of a single shareholder of a company.

(x) *Shareholders*

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (1) the right to attend and vote in person or to appoint a proxy to attend and vote on his behalf at general meetings of the company;
- (2) the right to inspect the articles of association of the company, the minutes of shareholders' meetings and the financial report of the company and to put forward propositions and enquiries relating to the operation of the company;
- (3) the right to transfer the shares held by it in accordance with law;
- (4) the right to receive the surplus assets of the company in its winding up in proportion to its shareholding; and
- (5) the right to apply to the people's court for an injunction if a resolution passed at a shareholders' meeting or directors' meeting has infringed the law or administrative regulations or the legitimate interests of the shareholders.

A shareholder is liable to the company to the extent of the amount of shares he subscribed for. A shareholder may enjoy such other rights and is required to assume such other obligations as specified in the company's articles of association.

(xi) *Shareholders' general meetings*

(aa) Powers of shareholders in general meeting

The shareholders' general meeting is the organ of authority of the company and may exercise the following powers:

- (1) to determine the company's business policies and investment plans;
- (2) to elect or remove directors and supervisors who are the representatives of shareholders and to fix the remuneration of directors and supervisors;
- (3) to consider and approve the reports of directors and supervisors;

- (4) to consider and approve the annual financial budget and accounting plans;
- (5) to consider and approve the profit distribution plan and plans for recovery of losses;
- (6) to approve the increase or reduction in share capital of the company;
- (7) to approve the issue of bonds by the company;
- (8) to approve the merger, demerger, dissolution and liquidation of the company; and
- (9) to approve amendments to the company's articles of association.

(bb) Annual general meetings and extraordinary shareholders' general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary shareholders' general meetings. Annual general meetings must be held once every year. Extraordinary shareholders' general meetings are general meetings other than annual general meetings and shall be convened within two months after the occurrence of any of the following circumstances:

- (1) the number of directors is less than two thirds of the number required under the PRC Company Law or the company's articles of association;
- (2) the company's accumulated losses amount to one third of its paid up capital;
- (3) upon requisition by holders of not less than 10% of the shares of the company; or
- (4) the board of directors or the supervisory committee considers such a meeting necessary.

(cc) Proceedings of shareholders' general meetings

A shareholders' general meeting has to be convened by the board of directors and presided over by the chairman of the board of directors. Under the PRC Company Law, notice of shareholders' meeting shall be given not less than 30 days before the date of the meeting. A company which has bearer shares in issue shall

make public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Special Regulations and the Mandatory Provisions, 45 days' notice of a shareholders' general meeting is required to be given to shareholders specifying the matters to be considered at and the date and place of the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders who intend to attend a shareholders' general meeting are required to provide the company with a written confirmation of their attendance 20 days prior to the meeting. Shareholders holding 5% or more of the voting rights of a company are entitled, under the Special Regulations, to propose to the company in writing new resolutions to be considered at an annual general meeting and the company shall include any proposed resolutions which are within the powers of a shareholders' general meeting in the agenda of that meeting.

The PRC Company Law does not specify any quorum requirement for a general meeting. The Special Regulations and the Mandatory Provisions provide that a shareholders' general meeting may be held if shareholders holding 50% or more of the voting rights of a company have replied in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. In the event that the 50% level is not attained, a shareholders' general meeting may be held if the company shall within five days after the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at and the place and date of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for every share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting must be passed by more than half of the votes cast by shareholders present in person or by proxy at the meeting except that (1) amendments to the company's articles of association; (2) the merger, demerger or dissolution of the company; (3) the increase and reduction of capital of and the issue of any class of shares, bonds and securities by the company; (4) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potentially material effect on the company and should be approved by special resolution are required under the Mandatory Provisions to be approved by two thirds or more of the votes so cast.

The Mandatory Provisions require class meetings to be held in the event of a variation or abrogation of the class rights of a class. Holders of domestic shares and holders of overseas listed foreign shares are deemed to be different classes of shareholders.

(xii) *Directors*

(aa) Board of directors

The board of directors of a company shall consist of between five and 19 directors. The term of office of a director shall be prescribed by the company's articles of association provided that a term of office shall not exceed three years. A director may serve consecutive terms if re-elected. The board of directors of a company may exercise the following powers:

- (1) to propose to convene shareholders' meetings and report on its work to the shareholders;
- (2) to implement resolutions passed by shareholders in general meetings;
- (3) to decide on the company's business plans and investment plans;
- (4) to formulate annual budgets and accounts of the company;
- (5) to formulate profit distribution plans and plans for recovery of losses;
- (6) to formulate plans for the increase or decrease in registered capital or plans for issue of bonds;
- (7) to formulate plans for the merger, demerger or dissolution of the company;
- (8) to decide on the internal management structure of the company;
- (9) to appoint or dismiss the manager, and at the recommendation of the manager, employ or dismiss deputy managers and financial controllers and to fix their remuneration; and
- (10) to decide on a management control system.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating proposals for amending the articles of association of the company.

(bb) Board meetings

Regular meetings of the board of directors of a company shall be held at least twice every year. Notice of regular board meetings shall be given at least 10 days before the date of the meeting. Notices of any other extraordinary board meetings shall be given in such manner and for such notice period as may be determined by the board of directors.

A board meeting shall be attended by more than half of the directors. A director may attend a board meeting personally or may appoint another director as his alternate to attend on his behalf. All board resolutions must be passed by the affirmative votes of more than half of the directors. All resolutions passed at a board meeting shall be recorded in the minutes of the relevant meeting and the minutes shall be signed by the directors who attended the meeting and the person who recorded the minutes. If any board resolution contravenes any applicable laws and regulations or the company's articles of association and results in substantial damages to the company, any director who participated in passing the resolution (except those who voted against the resolution and whose dissenting vote is recorded in the relevant minutes) shall be personally liable to the company.

(cc) Chairman of the board of directors

The board of directors shall appoint a chairman. The appointment of the chairman shall be approved by more than half of the directors. The chairman is the legal representative of the company and may exercise the following powers:

- (1) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (2) to examine the implementation of resolutions of the board of directors; and
- (3) to sign the share certificates and bonds issued by the company.

(dd) Qualification of directors

The PRC Company Law provides that the following persons are not eligible to act as directors:

- (1) a person who is unable or has limited ability to undertake any civil liabilities;
- (2) a person who has been convicted of offences relating to bribery, corruption, appropriation of property, or the destruction of social economic order, where less than five years have elapsed since the date of completion of the sentence; or a person who has been deprived of his political rights where less than five years have elapsed since completion of such deprivation;

- (3) a person who is a former director, factory manager or manager of a company or enterprise which has become bankrupt or has been liquidated due to mismanagement and who is personally liable for the bankruptcy or liquidation of such company or enterprise, where less than three years have elapsed since the date of the completion of the liquidation of the company or enterprise;
- (4) a person who has been a legal representative of a company enterprise the business licence of which has been revoked due to unlawful operation by the enterprise and the person is personally responsible for such revocation, where less than three years has elapsed since the date of such revocation;
- (5) a person who is liable for a relatively large amount of debt which has not been repaid when due; or
- (6) a person who is a State civil servant.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association.

(xiii) *Supervisory committee*

A company is required to establish a supervisory committee comprising not less than three members. The supervisory committee is responsible for:

- (1) examining the financial matters of the company;
 - (2) supervising the directors and manager of the company to ensure that they carry out their duties in compliance with the relevant laws and regulations and the company's articles of association;
 - (3) requiring the directors and manager to rectify any action which adversely affects the interests of the company;
 - (4) proposing the convening of shareholders' general meetings; and
 - (5) carrying out other duties specified in the company's articles of association.
- A supervisor is also required to attend board meetings. Under the Supplemental Amendments, resolutions of a supervisory committee are required to be passed by the affirmative votes of two thirds or more of the supervisors. Members of the supervisory committee shall comprise representatives elected by the workers of the company and representatives

elected by shareholders in general meeting in an appropriate proportion specified in the company's articles of association. A director, manager or financial controller of the company cannot become a supervisor. The term of office of a supervisor is three years and a supervisor may serve consecutive terms if re-elected. The circumstances under which a person is disqualified from acting as a director of a company under the PRC Company Law and the Mandatory Provisions apply mutatis mutandis to a supervisor of the company.

(xiv) *Manager and officers*

The company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (1) to supervise the production, business and administration of the company and to organise the implementation of resolutions of the board of directors;
- (2) to organise the implementation of the company's business and investment plans;
- (3) to formulate plans for the establishment of the company's internal management structure;
- (4) to formulate the basic administration system of the company;
- (5) to formulate the company's internal rules;
- (6) to recommend the appointment and dismissal of deputy managers and the financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (7) to attend board meetings; and
- (8) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations provide that the officers of a company shall include its financial controller, company secretary and other executives specified in the company's articles of association. The circumstances under which a person is disqualified from acting as a director of a company under the PRC Company Law and the Mandatory Provisions apply mutatis mutandis to managers and officers of the company.

(xv) Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the PRC Company Law to comply with the relevant law, regulations and the company's articles of association, carry out their duties honestly, and protect the interests of the company. The Special Regulations and the Mandatory Provisions provide that a director, a supervisor, a manager or an officer of a company owes fiduciary duties to the company and are required to perform their duties faithfully, protect the interests of the company and not to make use of their positions in the company for their own benefit. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant law and regulations or by the shareholders. A director, supervisor, manager or an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which resulted in any loss to the company shall be personally liable to the company.

(xvi) Finance and accounting

A company is required to establish a financial and accounting system in accordance with the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. A company is required to prepare its financial statements at the end of each financial year comprising its balance sheet, profit and loss account, a statement on financial status and changes of financial status and a profit distribution statement. The financial statements shall be made available for inspection by the shareholders of the company at least 20 days prior to the annual general meeting of the company. A company established by the public subscription method must publish its financial statements by way of public announcement. A company is required to make the following transfers from its after tax profit before distributing its profits to the shareholders of the company:

- (1) 10% of its after tax profit to the statutory common reserve of the company provided that no further transfer is required to be made if the accumulated statutory common reserve exceeds/reaches 50% of the registered capital of the company;
- (2) between 5% and 10% of its after tax profit to the statutory public welfare fund;
- (3) subject to the shareholders' approval in shareholders' general meeting and after transfer of the requisite amount to the statutory common reserve, the amount from the after tax profit of the company to the discretionary common reserve; and
- (4) any balance of the after tax profit after making up losses and transfers to the common reserve and statutory public welfare fund shall be distributed to the shareholders in proportion to their respective shareholdings in the company.

When a company's statutory common reserve is insufficient to make up for the company's losses for the previous year, the profits of the company for the current year shall be applied to make up such losses before making allocations in accordance with the foregoing requirements to the statutory common reserve and the statutory public welfare fund. The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve. The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (1) to make up the company's losses;
- (2) to expand the business operations of the company; and
- (3) to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25% of the registered capital of the company.

The statutory public welfare fund shall be applied for the collective welfare of the company's employees.

(xvii) Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual financial statements and review other financial reports. The auditors are to be appointed for a term commencing from their appointment at an annual general meeting to the close of the next annual general meeting. If a company removes or ceases to continue to appoint its existing auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The auditors who resigned from their office should make a statement to the shareholders stating whether or not the company has undertaken any inappropriate transactions. The appointment, removal or non renewal of appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

(xviii) Distribution of profits

The Special Regulations provide that the dividends and other distributions payable to holders of overseas listed foreign shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

(xix) Amendments to articles of association

Amendments to a company's articles of association must be approved by two thirds or more of the votes cast by shareholders present at the shareholders' general meeting. A company must change its registration particulars in accordance with the applicable law if any amendments to its articles of association involving registration matters are adopted.

(xx) Merger and demerger

The merger or demerger of a company shall be approved by the shareholders in general meeting and the relevant governmental authority. The merger of a company may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities. All parties to a merger are required to sign a merger agreement and to prepare their respective balance sheets and inventory of assets. Each relevant party to a merger shall notify the creditors of the merger within 10 days and publicly announce the merger in the newspapers at least three times within 30 days after the resolution approving the merger has been passed. The creditors are required within the statutory prescribed time limit to request the company to repay any outstanding indebtedness or provide guarantees covering such indebtedness. Any company which is unable to repay its debts or provide such guarantees is prohibited from proceeding with the merger. A company is required to prepare its balance sheet and inventory of assets prior to its demerger. Similar requirements on notification of the demerger to creditors, publication of notice of the demerger and repayment of or provision of guarantees to creditors are applicable to the case of a demerger. Any changes in the registrar's particulars of the companies resulting from merger or demerger should be re-registered with the company registration authority in accordance with the law.

(xxi) Dissolution and liquidation

Under the PRC Company Law, a company shall be dissolved and liquidated if any of the following events shall occur:

- (1) the term of its operations stipulated in the company's articles of association has expired or on the occurrence of an event provided in the company's articles of association which triggers the dissolution of the company;
- (2) the shareholders in general meeting have resolved to dissolve the company by special resolution;
- (3) a merger or demerger of the company which requires the company to be dissolved;

- (4) the declaration of the bankruptcy of the company according to law by reason of its not being able to pay its debts when become due and payable; or
- (5) the company has been ordered to close down as a result of violation of the law or administrative regulations.

Where a company is dissolved in any of the circumstances referred to in (1) or (2) above, the shareholders in general meeting shall within 15 days of the occurrence of the event appoint the members of the liquidation committee. If the liquidation committee is not established within the specified time, the creditors of the company may apply to the people's court to appoint the members of the liquidation committee. The people's court or the relevant supervising department shall organise a liquidation committee to conduct the liquidation. A liquidation committee shall comprise shareholders, the relevant department and the relevant professional personnel if the company is dissolved in the circumstances described in (4) or (5) above. A liquidation committee shall be responsible for dealing with the assets of the company, preparing a balance sheet and an inventory of the company's assets, notifying the creditors of the company's dissolution, handling the outstanding business of the company, discharging the outstanding indebtedness (including unpaid taxes) of the company, distributing the company's surplus assets after repayment of all its indebtedness and representing the company in all civil litigation. A liquidation committee is required to notify the creditors of the dissolution of the company within 10 days after its establishment and issue a public announcement of the dissolution of the company at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory prescribed time limit.

The company's assets shall be applied to pay all expenses incurred in connection with the liquidation, the employees' wages and the indebtedness of the company. Any surplus assets after discharge of the company's liabilities shall be distributed to the shareholders in proportion to their respective shareholdings in the company. If the assets of the company are insufficient to repay/discharge its indebtedness, the liquidation committee shall apply to the people's court for a declaration of insolvency and shall transfer the liquidation proceedings to the people's court.

A company cannot engage in any new business operations during its liquidation. On completion of the liquidation process, the liquidation committee is required to submit a liquidation report to the shareholders in general meeting and the relevant administrative department for confirmation. The liquidation committee is also required to apply to the SAIC or PAIC for the cancellation of the company's registration and to make a public announcement of the company's dissolution following such cancellation. Members of the liquidation committee are required to discharge their duties honestly and in compliance with laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

(xxii) Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with procedures specified by the Special Regulations. According to the Special Regulations and the Mandatory Provisions, a company's plan to issue overseas listed foreign shares and domestic shares which has been approved by the CSRC may be implemented by its board of directors separately within 15 months after approval is obtained from the CSRC.

(xxiii) Loss of shares certificates

In the event that share certificates in registered form are either stolen or lost, a shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificates will no longer be valid. After such a declaration has been made by the people's court, the shareholder may apply to the company for the issue of replacement certificates. A separate procedure regarding the loss of H Share certificates is provided in the Mandatory Provisions and which has been incorporated into the Articles of Association, a summary of which is set out in appendix VI to this prospectus.

(xxiv) Suspension and termination of listing

A company which is listed on a stock exchange may have its listing suspended by the securities administration department of the State Council if any of the following shall occur:

- (1) the registered capital of the company or the distribution of the company's shares no longer complies with the relevant listing requirements;
- (2) the company has failed to disclose its financial position in accordance with the relevant law and regulations or the financial report of the company contains false information;
- (3) the company has committed a material breach of the law; or
- (4) the company has incurred losses for each of the immediately preceding three years.

If the circumstances referred to in (2) and (3) above have occurred and investigation has established that the consequences are serious, or if the circumstances referred to in (1) and (4) above have occurred and the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares. The

securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company has resolved to be wound up or is ordered by the relevant governmental authority to be dissolved, or the company is declared insolvent.

(g) Securities Law and Regulations

At present, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for co-ordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis.

On 22nd April, 1993, the State Council promulgated 股票發行及交易管理暫行規定 (the Provisional Regulations Concerning the Issue and Trading of Shares) (the "Securities Provisional Regulations"). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. These regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the Securities Commission and also provide that separate measures be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12th June, 1993, the CSRC promulgated 公開發行股票公司信息披露實施細則(試行) (the Implementation Measures (Provisional) on Disclosure of Information by Companies making Public Offerings of Shares) pursuant to the Securities Provisional Regulations. Under these measures, the CSRC is responsible for supervising the disclosure of information by

companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 15th August, 1993, the Securities Commission promulgated 禁止證券欺詐行為暫行辦法 (the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4th July, 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of foreign capital stock listed abroad and disclosure of information, articles of association of joint stock limited companies having foreign capital stock listed abroad.

On 25th December, 1995, the State Council promulgated 國務院關於股份有限公司境內上市外資股的規定 (the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29th December, 1998, the Standing Committee of the NPC promulgated 中華人民共和國證券法 (the Securities Law of the PRC) which came into effect on 1st July, 1999. This is the first national securities law in the PRC and is the fundamental law

comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

On 29th March, 1999, the State Economic and Trade Commission and the CSRC promulgated 關於進一步促進境外上市公司規範運作和深化改革的意見 (the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas) (the “Opinion”), which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external and independent supervisors in the supervisory committee.

(h) **Summary of the laws on the textile industry**

Currently, the PRC has yet not promulgated by any law or administrative regulation specifically related with the textile industry.

Prior to February 2001, the National Textile Industry Bureau was the main regulatory department of the cotton textile industry of the PRC. Its main responsibilities were:

- to study and fix development strategies and industrial planning of the textile industry;
- to study and initiate laws for the textile industry, organise and formulate administrative regulations, technological standardisation and standards of the industry;
- to handle, analyse the production trends of the textile industry, coordinate internal relationship within the industry, promote adjustment of product structure, maintain the discipline of fair competition.

In February 2001, the National Textile Industry Bureau was abolished, and its related industrial regulatory functions was merged under SETC. On 10th March, 2003, the NPC passed a resolution to dissolve SETC, and the afore-said industrial regulatory functions will be merged under Ministry of Commerce.

Pursuant to the “Guideline Catalogue for Foreign Investment Industries” issued by SETC and MOFTEC on 11th March, 2002, production of special type of engineering textiles, high-end fabric face materials and post-refining process belong to encouraged industries for foreign investors, while wool, cotton yarn and silk belong to restricted industries for foreign investors.

Pursuant to the “Tenth-Five Year Planning of the Textile Industry” issued by the SETC on 25th June, 2001, an overall planning has been made to the textile industry in the PRC during 2001 to 2005, and efforts were put to enhance its industrial value from RMB267.8 billion in 2000 to RMB430 billion by 2005, and increasing the total volume of textile fibre processing from 12.1 million tons in 2000 to 14.25 million tons by 2005.

(i) **Legal Opinion**

Jingtian & Gongcheng, the Company’s legal adviser on PRC laws, has sent to the Company an opinion dated 15th September, 2003 confirming that it has reviewed the summary of relevant PRC laws and regulations and the summary of the material differences between the Hong Kong company law and the PRC Company Law in so far as they relate to PRC laws, both as contained in this appendix and that, in its opinion, such summaries are correct summaries of the relevant PRC laws and regulations. A copy of such opinion is available for inspection as referred to in the paragraph headed “Documents available for inspection” in appendix VIII to this prospectus. Any person wishing to have detailed advice on PRC laws and regulations is recommended to seek independent legal advice.

2. HONG KONG LAWS AND REGULATIONS

(a) **Company Law**

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. The Company, which is a joint stock limited company established in the PRC seeking a Listing is governed by the PRC Company Law which came into effect on 1st July, 1994 and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) *Corporate existence*

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong are required by the Companies Ordinance to contain certain pre-emptive provisions. A public company does not contain such pre-emptive provisions in its articles of association.

Under the PRC Company Law, a company may be incorporated by either the promotion method or the public subscription method. A company established by the public subscription method will only acquire its corporate existence after it has completed its initial share offering to the public and such a company may only issue further shares after a year has elapsed since its last share offer. The PRC Company Law requires a state-owned enterprise to be converted into a joint stock limited company by the public subscription method in the event that there are less than five promoters. Under the PRC Company Law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB50,000,000. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares allotted by a joint stock limited company in return for injection of industrial property rights and non-patented technology shall not exceed 20% of the registered capital of a company. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) *Share capital*

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital which the company is authorised to issue and a company is not bound to issue the entire amount of its authorised share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognise the concept of authorised share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant PRC governmental and regulatory authorities.

(iii) *Restrictions on shareholding and transfer of shares*

Under PRC law, the domestic shares (“domestic shares”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares (“foreign shares”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC. Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within three years after the date of establishment of the company. Shares in a joint stock limited company held by its directors, supervisors and manager cannot be transferred during their respective terms of office. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv) *Financial assistance for acquisition of shares*

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) *Variation of class rights*

Under Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class. The PRC Company Law does not contain any specific provision relating to variation of class rights. Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by two thirds or more of the votes cast by shareholders of the affected class present in person or by proxy at a separate class meeting. For the purpose of a variation of class rights, domestic shares and foreign shares are treated as separate classes of shares except in the case of (i) an issue of shares by the joint stock limited company in any 12 month period either separately or concurrently following the approval by a special resolution of shareholders in general meeting not exceeding 20% of each of the issued domestic shares and foreign shares existing as at the date of such special resolution; and (ii) an issue of domestic shares and foreign shares in accordance with the plan of the company approved by the securities authority and which are completed within 15 months following the establishment of the company. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(vi) *Directors*

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) *Supervisory committee*

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision of a supervisory committee but there is no

mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives a shareholder of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by shareholders in general meeting or by the board of directors which violates any law or infringes the lawful rights and interests of shareholders, the PRC law does not have a form of proceedings which is the same as a derivative action. The Mandatory Provisions, however, provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favour of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) *Notice of shareholders' meetings*

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 30 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 45 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(xi) *Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of the company, which shall not in any event be less than two members. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) *Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of a joint stock limited company which requires two thirds or more of votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

(xiii) *Financial disclosure*

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the

public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

Under the PRC Company Law, neither the public nor the shareholders of a joint stock limited company have access to information on its directors and shareholders. Under the Mandatory Provisions, shareholders have the right to inspect and copy (at reasonable charges) certain information about shareholders and directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) *Corporate reorganisation*

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and by the relevant governmental authorities.

(xvii) *Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) *Mandatory transfers*

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve and statutory public welfare fund. There are no such requirements under Hong Kong law.

(b) **Listing Rules**

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) *Sponsor*

The Company is required to retain for at least one year following its listing or such shorter period as the Stock Exchange may in its absolute discretion permit, the services of the sponsor for its listing, or other financial adviser or professional firm which is acceptable to the Stock Exchange, to provide the Company with professional advice on continuous compliance with the Listing Rules and its listing agreement with the Stock Exchange (see sub-paragraph (viii) below), and to act at all times, in addition to the two authorised representatives of the Company, as the Company's principal channel of communication with the Stock Exchange. The appointment of the sponsor

may not be terminated until a replacement acceptable to the Stock Exchange has been appointed. If the Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately, it may require the issuer to terminate the sponsor's appointment and appoint a replacement as soon as possible.

(ii) *Accountants' report*

An accountants' report for a PRC issuer will not normally be regarded as acceptable unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards.

(iii) *Process agent*

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) *Public shareholdings*

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("H shares") which are listed on the Stock Exchange, the Listing Rules require that all H shares must be held by the public, the H shares must represent not less than 10% of the PRC issuer's issued share capital and the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital. If the PRC issuers do not have existing issued securities other than H shares, the H shares must constitute not less than 25% of the issuer's issued share capital unless the expected market value of the H shares at the time of listing is over HK\$4,000 million in which case, the Stock Exchange will normally accept a prescribed percentage of between 10% and 25%.

(v) *Independent non-executive directors and supervisors*

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) *Restrictions on purchase and subscription of its own securities*

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any. Any general mandate given to the directors to repurchase H shares must not exceed 10% of the total amount of existing issued H shares of the Company.

(vii) *Mandatory Provisions*

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VI to this prospectus.

(viii) *Listing Agreement*

The Company is required to enter into a listing agreement with the Stock Exchange (the "Listing Agreement"), which is in substantially the same form as the listing agreement for an overseas company seeking a listing of its relevant shares on the Stock Exchange, subject to certain modifications and additions as follows:

(aa) Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H shares are adequately protected.

(bb) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and H shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (1) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such

convertible securities; or (2) any major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently, domestic shares and H shares subject to a restriction that in any 12 month period (commencing on the date on which shareholders pass such special resolution) the aggregate number of domestic shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued domestic share capital of the Company and the aggregate number of H shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued H share capital of the Company, in each case as at the date of the passing of the relevant special resolution.

(cc) Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange. The restriction on the Company or any of its subsidiaries entering into a service contract of ten years or longer duration with a Director or proposed Director of the Company or its subsidiary without the prior approval of the shareholders in a general meeting at which the relevant Director did not vote on the matter also applies to a service contract of such duration between the Company or its subsidiary with a Supervisor or proposed Supervisor.

(dd) Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules relating to such Articles of Association.

(ee) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;

- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic Shares and H Shares);
- a copy of the latest annual return filed with the State Administration of Industry and Commerce of the PRC; and
- for shareholders only, copies of minutes of meetings of shareholders.

(ff) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(gg) Statements in share certificates

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising

from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorises the Company to enter into a contract on his behalf with each Director and senior officer of the Company whereby each such Director and senior officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(hh) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(ii) Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(jj) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(kk) English translation

All notices or other documents required under the Listing Agreement to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(ix) *General*

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

(c) **Other Legal and Regulatory Provisions**

Upon Listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

(d) **Securities Arbitration Rules**

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

(e) Taxation in Hong Kong**(i) Dividends**

Where a company is not chargeable to Hong Kong profits tax, any dividends paid by it to persons who carry on a business in Hong Kong are liable to profits tax, to the extent that such dividends form part of the profits of such persons arising from their Hong Kong business.

(ii) Profits tax

Hong Kong does not have any capital gains tax. Persons who carry on a trade, profession or business in Hong Kong and derive income in Hong Kong from such trade, profession or business are liable to profits tax. Securities dealers carrying on a business in Hong Kong and making trading gains from the sale and purchase of shares will be subject to profits tax. Currently, profits tax for corporations is payable at the rate of 17.5% of their assessable profits. Profits tax for individuals is levied on a progressive scale and the maximum rate is 15.5% (with effect from 1st April, 2003) and will be 16% (with effect from 1st April, 2004).

(iii) Stamp duty

The sale and purchase of shares are subject to stamp duty payable by both the seller and the buyer. Duty is payable with reference to the amount of the consideration or, if higher, the fair value of the shares being sold. In respect of every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the shares, the current rate of duty is HK\$2. Stamp duty is usually shared between the buyer and the seller equally in respect of transactions on the Stock Exchange. A fixed rate of duty of HK\$5 is also payable in respect of every instrument of transfer which is required to be registered on a register or branch register maintained in Hong Kong.

(iv) Estate duty

Properties situated in Hong Kong which pass or are deemed to pass upon the death of a person, wherever domiciled or resident, are liable to estate duty based on the value of the property in question. H Shares will constitute property situated in Hong Kong for estate duty purposes by virtue of them being on the Hong Kong branch register of the Company. Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty have, in the past, been adjusted on a fairly regular basis. No estate duty is payable where the aggregate value of the suitable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies where the aggregate value of the dutiable estate exceeds HK\$10.5 million.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association. A copy of the Articles of Association, together with a certified English translation is available for inspection as mentioned in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in appendix VIII to this prospectus.

(A) **Directors and other officers**

(i) *Power to allot and issue Shares*

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of the Company, the board of Directors (the “Board”) is responsible for formulating proposals for approval at a shareholders’ general meeting by way of special resolution. Any such increase must be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

The Board is accountable to the shareholders’ general meeting.

The Board shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of, any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet placed before the shareholders in general meeting.

The validity of a disposition by the Company shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition includes an act involving the transfer of an interest in assets but does not include the provision of fixed asset by way of security.

(iii) *Compensation or payments for loss of office*

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or Supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as Director, Supervisor or senior administrative officer of the Company or any of its subsidiaries;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (2) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (3) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that, in the event of a takeover of the Company, the Company's Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means either:

- (1) an offer made by any person to the general body of shareholders; or
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles of Association (see paragraph (R) below).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not paid out of that sum.

(iv) *Loans to Directors, Supervisors and other officers*

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with, the making of a loan to a Director, Supervisor, manager, or other senior administrative officer of the Company or of the Company's holding company or any of their respective associates as described in the Articles of Association (see paragraph (ix) below). However, the following transactions are not subject to such prohibition:

- (1) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- (2) the provision by the Company of a loan, a guarantee or any other funds to any of its Directors, Supervisors, managers and other senior administrative

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; and

- (3) the Company may make a loan or a guarantee to any of the relevant Directors, Supervisors, managers and other senior administrative officers or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of the Company includes providing loans or guarantees.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless (i) the lender is unaware of the fact that the loan is provided to anyone related to the Directors, Supervisors, managers or other senior administrative officers of the Company or its holding company; (ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For these purposes, a guarantee includes an undertaking or property provided by the guarantor to secure the performance of obligations by the obligor.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

Where a Director, Supervisor, manager or other senior administrative officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the Board.

Unless the interested Director, Supervisor, manager or other senior administrative officer discloses his interests in accordance with the above and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested Director, Supervisor, manager or other senior administrative officer is not counted in the quorum and refrains from voting, the Company may rescind such contract, transaction or arrangement in which that Director, Supervisor, manager or other senior administrative officer is materially interested at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, manager or other senior administrative officer.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

For these purposes, a Director, Supervisor, manager or other senior administrative officer of the Company is deemed to be interested in a contract, transaction or arrangement in which an associate of him is interested.

Where a Director, Supervisor, manager or other senior administrative officer of the Company gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, such notice shall be deemed for the purposes of this paragraph (v) to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

(vi) *Remuneration*

The remuneration of Directors must be approved by shareholders in general meeting, as referred to under "Compensation or payments for loss of office". The Directors are not entitled, without having the approval of shareholders in general meeting, to vote remuneration (including pension or other benefits) to themselves or any members of their body and any other provision as to the remuneration of the Directors.

(vii) *Retirement, appointment and removal*

The term of office of the Directors shall be three years.

Directors shall be elected and removed by the shareholders in general meeting. A Director is not required to hold shares of the Company.

The Board shall consist of seven to eleven Directors. The Board shall have one chairman. The chairman shall be elected and removed by one half or more of all the Directors.

A person may not serve as a Director, Supervisor, manager and any other senior administrative officer of the Company if any of the following circumstances apply:

- (1) a person without civil or with restricted civil capacity;
- (2) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where less than five (5) years have elapsed since the date of the completion of implementation of such punishment or deprivation;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (3) a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the insolvency and liquidation of the Company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise which had its business licence revoked due to a violation of the law and who incurred personal liability, where less than three (3) years has elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts due and outstanding;
- (6) a person who is under criminal investigation or prosecution by judicial organisation for violation of the criminal law which is not yet concluded;
- (7) a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- (8) a non-natural person; or
- (9) a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction.

The validity of an act of a Director, Supervisor, manager or other senior administrative officer on behalf of the Company is not, vis-à-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

There is no provision relating to retirement of Directors upon reaching any age limit.

(viii) *Borrowing powers*

On condition of compliance with applicable laws and regulations of PRC and the Articles of Association, the Company has the power to raise and borrow money and to decide the mortgage, lease, contracting and transfer of the Company's assets.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(ix) Duties

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which Shares are listed, each of the Company's Directors, Supervisors, manager and other senior administrative officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) not to cause the Company to exceed the scope of the business stipulated in its business licence;
- (2) to act honestly in the best interest of the Company;
- (3) not to expropriate by any means the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company;
- (4) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders for approval in accordance with the Articles of Association.

Each of the Company's Directors, Supervisors, manager and other administrative officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, manager and other senior administrative officers shall exercise his powers or carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- (1) to act honestly in the best interests of the Company;
- (2) to exercise powers within the scope of his powers and not to exceed those powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION
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- (5) except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- (8) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;
- (9) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (10) not to compete with the Company in any form unless with the informed consent of shareholders given in general meeting;
- (11) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- (12) unless otherwise permitted by informed shareholders in general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if:
 - (i) disclosure is made under compulsion of law;
 - (ii) disclosure is in the interests of the public;
 - (iii) disclosure is in the interests of the relevant Director, Supervisor or other senior administrative officer who requires disclosure.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

Each Director, Supervisor, manager or other senior administrative officer of the Company shall not cause the following persons or institutions (“associates”) to do what he is prohibited from doing:

- (1) the spouse or minor child of that Director, Supervisor, manager or other senior administrative officer;
- (2) a person acting in the capacity of trustee of that Director, Supervisor, manager or other senior administrative officer or any person referred to in the preceding paragraph;
- (3) a person acting in the capacity of partner of that Director, Supervisor, manager or other senior administrative officer or any person referred to in paragraphs (1) and (2) above;
- (4) a company in which that Director, Supervisor, manager or other senior administrative officer, alone or jointly with one or more persons referred to in paragraphs (1), (2) and (3) above and other directors, supervisors, managers and other senior administrative officers have a de facto controlling interest; and
- (5) the Directors, Supervisors, manager and other senior administrative officers of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the Directors, Supervisors, manager and other senior administrative officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, manager or other senior administrative officer of the Company is in breach of his duties to the Company, the Company has a right to:

- (1) claim damages from the Director, Supervisor, manager or other senior administrative officer in compensation for losses sustained by the Company as a result of such breach;
- (2) rescind any contract or transaction entered into by the Company with the Director, Supervisor, manager or other senior administrative officer or with a third party (where such third party knows or should know that there is such a breach of duties by such director, supervisor or other senior administrative officer);

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (3) demand an account of the profits made by the Director, Supervisor, manager or other senior administrative officer in breach of his duties;
- (4) recover any monies received by the Director, Supervisor, manager or other senior administrative officer to the use of the Company, including (without limitation) commissions; and
- (5) demand payment of the interest earned or which may have been earned by the Director, Supervisor, manager or other senior administrative officer on the monies that should have been paid to the Company.

Subject to the Articles of Association, a Director, Supervisor, manager or other senior administrative officer of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting.

(B) Alterations to constitutional documents

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Company's Articles of Association.

Amendments to the Company's Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the companies approving department authorised by the securities authority under the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with PRC laws.

(C) Variation of rights of existing shares or classes of shares

Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be variation or abrogation of the class rights of a class:

- (1) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of class having voting or equity rights or privileges equal or superior to those of the shares of such class;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION
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- (2) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (4) to remove or reduce a dividend preference or a liquidation preference attached to shares of such class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or preemptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;
- (7) to create a new class of shares having voting or equity right or privileges equal or superior to those of the shares of such class;
- (8) to restrict the transfer or ownership of the shares of such class or add to such restriction;
- (9) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (12) to vary or abrogate provisions in Chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matter concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be passed by votes representing two thirds or more of the voting rights of shareholders of that class present at the relevant meeting who are entitled to vote at class meetings.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

Written notice of a class meeting shall be given forty-five days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company twenty (20) days before the date of the class meeting.

If the number of shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders, again by public notice, of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after such publication of such notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any meeting of a class of shareholders. Holders of Domestic Shares and Foreign Shares are deemed to be shareholders of different classes.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic Shares and overseas-listed foreign-invested Shares; or
- (2) where the Company's plan to issue Domestic Shares and overseas-listed foreign-invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the CSRC.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

- (1) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles of Association;
- (2) in the case of a repurchase of shares by an off-market contract, a holder of the shares to which the proposed contract relates; and

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (3) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

(D) Resolutions — majority required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing one half or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

To adopt a special resolution, votes representing two thirds or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

(E) Voting rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of the Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote.

At any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders entitled to vote present in person or by proxy; or
- (3) by one or more shareholders present in person or by proxy and representing 10% or more of all shares (whether individually or in aggregate) carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded. On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

(F) Requirements for annual general meetings

The Board shall convene an annual shareholders' meeting once each year and within six (6) months from the close of the preceding financial year.

(G) Accounts and audit

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The financial year of the Company commences from 1st January and ends on 31st December of each calendar year.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities to be prepared by the Company.

The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place where the Company's shares are listed.

The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within 60 days after the first six-month period of each fiscal year and the annual financial report shall be published within 120 days after the expiration of each fiscal year.

(H) **Notice of meetings and business to be conducted thereat**

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

The Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person other than a Director, Supervisor, manager or other senior administrative officer whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months:

- (1) when the number of Directors is less than the number of directors required by the PRC Company Law or two thirds of the number of directors specified in the Articles of Association;
- (2) when the unrecovered losses of the Company amount to one third of the total amount of its share capital;
- (3) when shareholder(s) holding 10% or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting; or
- (4) when deemed necessary by the Board or as requested by the supervisory committee.

Written notice of an annual general meeting shall be given forty-five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company twenty (20) days before the date of the meeting.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

When the Company convenes a shareholders' annual general meeting, shareholders holding 5% or more of the total voting Shares of the Company shall have the right to propose new motions in writing, and the Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

A shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

The Company shall, based on the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the place and the date for the meeting. The Company then may hold the meeting after such publication of such notice.

A notice of meeting of shareholders shall comply with the following requirements:

- (1) be in writing;
- (2) specify the place, the date and the hour of the meeting;
- (3) state the matters to be discussed at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to exercise an informed judgement on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, manager or other senior administrative officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- (6) contain the full text of any special resolution proposed to be passed at the meeting;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (7) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder; and
- (8) specify the delivery time and place for lodging proxy forms for the relevant meeting.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may be issued by way of public notice.

The public notice shall be published in one or more newspapers designated by the securities authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting. After the publication of such notice, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the Board and the supervisory committee;
- (2) plans formulated by the Board for the distribution of profits and for making up losses;
- (3) removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- (4) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company; and
- (5) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) the increase or decrease of share capital of the Company and the Company's issue of shares of any class, warrants and other similar securities;
- (2) the issue of debentures of the Company;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (3) the division, merger, dissolution and liquidation of the Company;
- (4) amendments to the Articles of Association; and
- (5) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(I) Transfer of shares

All the fully paid-up H Shares can be freely transferred in accordance with the Articles of Association. However, the Board of Directors may refuse to recognise any instrument of transfer without giving any reason, unless:

- (1) a fee (for each instrument of transfer) of HK\$2.50 or any higher fee as agreed by the Stock Exchange has been paid to the Company for registration of any transfer or any other documents which is related to or will affect ownership of or change of ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4) the relevant share certificate and, upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the shares has been submitted;
- (5) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four; and
- (6) the Company does not have any lien on the relevant Shares.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of Shares may be made within thirty (30) days before the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends.

(J) Financial assistance for the acquisition of shares in the Company or any subsidiary

Subject to the exceptions in the Articles of Association, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares. The said

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

acquirer of shares of the Company includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of shares. The Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to in the preceding paragraph for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of Shares, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;
- (2) the lawful distribution of the Company's assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares or a reorganisation of the share capital structure of the Company effected in accordance with these Articles of Association;
- (5) the lending of money by the Company within its scope of business and in the ordinary course of its business, where the lending of money is part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- (6) the provision of money by the Company for contributions to staff and workers' share schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- (a) "financial assistance" includes, (without limitation), the following meanings:
 - (1) gift;
 - (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (3) provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or the novation of, or the assignment of rights arising under, such loan or agreement; or
 - (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.
- (b) “incurring an obligation” includes the incurring of obligations by the changing of the obligor’s financial position by way of contract or the making of arrangement (whether enforceable or not, and whether made on his own account or with any other persons), or by any other means.

(K) Power of the Company to purchase its own shares

In accordance with the provisions of the Articles of Association, the Company may reduce its registered share capital.

The Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the reduction of its capital;
- (2) merging with another company that holds shares in the Company; and
- (3) other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant State governing authority for repurchasing its shares, conduct the repurchase in one of the following ways:

- (1) making a pro rata general offer of repurchase to all of its shareholders;
- (2) repurchase shares through public dealing on a stock exchange; or
- (3) repurchase by an off-market agreement.

Where the Company repurchases its shares by an off-market agreement, the prior sanction of shareholders shall be obtained in accordance with the Articles of Association. The Company may release, vary or waive its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares of the Company. Rights of the Company under a contract to repurchase its shares are not capable of being assigned.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of the Company's registered shares capital shall be reduced by the aggregate par value of those cancelled shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares:

- (1) where the Company repurchases shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a fresh issue of shares made for that purpose;
- (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
 - (i) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or
 - (ii) if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased nor the current amount of the Company's share premium account (or capital reserve fund account) (including the premiums on the fresh issue);
- (3) payment by the Company in consideration of the following shall be made out of the Company's distributable profits:
 - (i) acquisition of rights to repurchase shares of the Company;
 - (ii) variation of any contract to repurchase Shares of the Company; and
 - (iii) release of any of the Company's obligation under any contract to repurchase shares of the Company (or capital reserve fund account); and

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (4) after the Company's registered shares capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment up the par value portion of the shares repurchased shall be transferred to the Company's share premium account.

(L) Power for any subsidiary of the Company to own shares

There are no provisions in the Articles of Association preventing ownership of shares by a subsidiary.

(M) Dividends and other method of profit distribution

The Company may distribute dividends in the following manner:

- (1) cash; and/or
- (2) shares.

There is no stipulation of any time limit after which any entitlement to dividends lapses.

The Company shall appoint receiving agents to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of their shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

(N) Proxies

Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- (1) have the same right as the shareholder's to speak at the meeting;
- (2) have authority to demand or join in demanding a poll; and
- (3) have the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

The instrument appointing a shareholder proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a legal entity either under seal or under the hand of a director or attorney duly authorised. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

If the appointer is a legal entity, its legal representative or such person as is authorised by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of the Company.

Any form issued to a shareholder by the Directors for use by him for appointing a proxy to attend and vote at meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favour of or against each resolution dealing with business to be transacted at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that no notice in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at its residence before the commencement of the meeting at which proxy is used.

(O) Calls on shares and forfeiture of shares

There are no provisions in the Articles of Association relating to the making of calls on shares or for the forfeiture of shares.

(P) Rights of shareholders (including inspection of register)

The ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to dividends and other distributions in proportion to the number of shares held;
- (2) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (3) the right to supervise and manage the Company's business operations, and the rights to present proposals or enquiries;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION
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- (4) the right to transfer shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- (5) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including:
 - (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy;
 - (ii) the right to inspect and copy, subject to payment of a reasonable charge:
 - (a) all parts of the register of shareholders;
 - (b) personal particulars of each of the Company's Directors, Supervisors, managers and other senior management officers as follows:
 - (aa) present name and alias and any former name or alias;
 - (bb) principal address (residence);
 - (cc) nationality;
 - (dd) primary and all other part-time occupations; and
 - (ee) identification document and its number;
 - (c) state of the Company's share capital;
 - (d) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; and
 - (e) minutes of shareholders' general meetings;
- (6) in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of shares held; and
- (7) other rights conferred by laws, administrative regulations and the Articles of Association.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(Q) Quorum for meetings and separate class meetings

The Company may convene a shareholders' general meeting where the number of voting shares represented by those shareholders from whom the Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches one half or more of the Company's voting share; or, if not, the Company shall notify the shareholders again by an announcement on the proposed topics, date and place of the meeting within five (5) days. After such an announcement, the Company may convene the meeting.

The Company may convene a class meeting where the number of voting shares represented by those shareholders from whom the Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches one half or more of the total number of voting Shares of that class; or, if not, the Company shall notify the shareholders again by an announcement on the proposed topics, date and place of the meeting within five (5) days. After such an announcement, the Company may convene the meeting.

(R) Rights of the minorities in relation to fraud or oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which shares of the Company are listed, a controlling shareholder shall not exercise his shareholder's rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- (1) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), by any means, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or
- (3) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with the Articles of Association.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

For these purposes, a “controlling shareholder” means a person who satisfies any one of the following conditions:

- (1) he alone, or acting in concert with others, has the power to elect more than half of the Board;
- (2) he alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (3) he alone, or acting in concert with others, holds 30% or more of the issued and outstanding shares of the Company; or
- (4) he alone, or acting in concert with others, in any other manner controls the Company in fact.

See also “Variation of rights of existing shares or classes of shares” above.

(S) Procedures on liquidation

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (a) a resolution for dissolution is passed by shareholders at a general meeting;
- (b) dissolution is necessary due to a merger or division of the Company;
- (c) the Company is legally declared bankrupt due to its failure to repay debts due; or
- (d) the Company is ordered to close down because of its violation of laws and administrative regulations.

Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the board shall include a statement in its notice convening a shareholders’ general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

(T) Other provisions material to the Company or its shareholders

(i) *General provisions*

The Company is a joint stock limited company existing permanently.

From the date of the Articles of Association becoming effective, the Articles of Association constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to such investee company.

Upon approval of the companies approving department authorised by the State Council, the Company may, according to its need of operation and management, operate as a holding company.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase of capital.

The Company may increase its capital in the following ways:

- (1) offering new Shares to non-designated investors for subscription;
- (2) placing new Shares to its existing shareholders;
- (3) distributing new Shares to its existing shareholders; and
- (4) any other way permitted by law and administrative regulations.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

The Company's increase of capital by issuing fresh Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, shares in the Company are freely transferable and are not subject to any lien.

When the Company reduces its registered shares capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days of the date of the Company's resolution for reduction of shares capital and shall publish a notice in a newspaper at least three times within thirty days of the date of such resolution. A creditor has the right within thirty days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within ninety days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding guarantee for such debt. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- (1) to abide by the Articles of Association;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription; and
- (3) other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

(ii) *Secretary of the Board*

The secretary of the Company's Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities are to ensure that:

- (1) the Company has complete organisational documents and records;
- (2) the Company, in accordance with law, prepares and delivers those reports and documents required by authorities entitled thereto; and
- (3) the Company's registers of shareholders are properly maintained, and that persons entitled to the Company's records and documents are furnished with such records and documents without delay.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(iii) Supervisory Committee

The Company shall have a supervisory committee. The Directors, managers and financial controller shall not act concurrently as supervisors. The supervisory committee shall be composed of three to five supervisors. The term of office of supervisors shall be three years, renewable upon re-election and re-appointment.

The supervisory committee shall have one chairman who shall be elected or removed with the consent of two thirds or more of the members of the supervisory committee. The term of office of the supervisor shall be three years, renewable upon re-election and re-appointment. The supervisory committee shall be comprised of two to four supervisors as representatives of shareholders and one supervisor as representative of staff and workers of the Company. Representative of shareholders shall be elected or removed by the shareholders in general meeting and the representative of staff and workers of the Company shall be elected or removed democratically by the staff and workers.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

- (1) to examine the Company's financial situation;
- (2) to examine whether the Directors, managers and other officers act, in relation to their performance of duties, in contradiction with the laws, administrative regulations and the Articles of Association;
- (3) to demand rectification from a Director, the manager or any other officer when the acts of such persons are harmful to the Company's interest;
- (4) to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders' general meetings and, should any queries arise, to authorise, in the name of the Company, a re-examination by the certified public accountants and practising auditors of the Company for the time being;
- (5) to propose to convene a shareholders' extraordinary general meeting;
- (6) to represent the Company in negotiation with or bringing an action against a Director; and
- (7) to exercise other powers specified in the Articles of Association.

Members of the supervisory committee shall be present at meetings of the Board.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(iv) Chairman of the Company

The Company shall have one chairman, who shall be appointed and dismissed by the Board. The term of office of the chairman is three (3) years and renewable upon re-election and re-appointment.

The chairman shall be accountable to the Board and have the following powers:

- (1) to hold shareholders' meeting and to convene and hold Board meeting;
- (2) to scrutinise the implementation of resolutions passed by the Board;
- (3) to sign on the securities issued by the Company;
- (4) to exercise other powers conferred by the Board.

In the event the chairman is unable to perform his duties, he may delegate such duties to the deputy chairman.

(v) Board

The Board is the executive authority of the Company. It is responsible to the shareholders' general meeting and exercises the following powers:

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;
- (4) to formulate the Company's proposed annual preliminary and final financial budget;
- (5) to formulate the Company's profit distribution plan and plan for recovery of losses;
- (6) to formulate proposals for increases or reductions of the Company's registered share capital and the issue of corporate debentures;
- (7) to draw up plans for the merger, division or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management structure;

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

- (9) to appoint or dismiss the Company's manager, and pursuant to the manager's nominations to appoint or dismiss the deputy manager and financial controller of the Company and decide on their remuneration;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendments of the Articles of Association;
- (12) subject to the relevant provisions of the State, to decide the salary level and welfare and reward procedures for the Company;
- (13) other material business and administrative matters not required to be decided by shareholders under the laws, regulations or the Articles of Association;
- (14) to formulate proposals for substantial acquisition or disposal; and
- (15) to exercise any other powers designated by the shareholders in general meeting or conferred by the Articles of Association.

Except the Board's resolutions in respect of the matters specified in the above paragraphs (6), (7) and (11), which shall be passed by two thirds or more of the Directors, the Board resolutions in respect of all other matters may be passed by one half or more of the directors.

Meetings of the Board shall be held at least twice every year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors ten (10) days before the date of the meeting. In case of any urgent matters, upon requisition by the manager of the Company or one third or more of Directors, an extraordinary meeting of the Board may be held.

Meetings of the Board shall be held only if more than half of the Directors are present. Each Director shall have one vote. Where the number of votes cast for and against a resolution are equal, the chairman of the Board shall have a casting vote.

Where a Director is interested in any resolution proposed at a Board meeting, such Director shall not be present and shall not have a right to vote. Such Director shall not be counted in the quorum of the relevant meeting.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(vi) *Accounts and Audit*

(1) Appointment of accountants' firm

The Company shall appoint an independent firm of certified public accountants which is qualified under the relevant regulations of the State to audit the Company's annual report and review the Company's other financial reports. The first certified public accountants' firm of the Company may be appointed by the inaugural meeting of the Company before the first annual general meeting and the certified public accountants firm so appointed shall hold office until the conclusion of the first annual general meeting. If the inaugural meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the Board.

The certified public accountants' firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual general meeting of shareholders.

Before the convening of the shareholders' general meeting, the Board may fill any casual vacancy in the office of the certified public accountants' firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders in general meeting may, by ordinary resolution, remove a certified public accountants' firm before the expiration of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of a certified public accountants' firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in general meeting.

(2) Change and removal of accountants' firm

The Company's appointment of, removal of and non-reappointment of a certified public accountants' firm shall be resolved by shareholders in general meeting. The resolution of the shareholders' general meeting shall be filed with the securities governing authority of the State Council.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of a certified public accountants' firm which is not an incumbent firm to fill a casual vacancy in the office of the certified public accountants' firm, re-appointment of a retiring certified public accountants' firm which was appointed by the Board to fill a casual vacancy, or removal of the certified public accountants' firm before the expiration of its term of office, the following provisions shall apply:

- (1) A copy of the proposal shall be sent before notice of meeting is given to the shareholders to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post during the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).
- (2) If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):
 - (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
 - (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.
- (3) If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may require that the representations be read out at the meeting and may lodge further complaints.
- (4) A certified public accountants' firm which is leaving its post shall be entitled to attend:
 - (i) the shareholders' general meeting at which its term of office would otherwise have expired;
 - (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (iii) any shareholders' general meeting convened on its resignation;

and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former certified public accountants' firm of the Company.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

(3) Resignation of accountants' firm

Where the certified public accountants' firm is removed or not re-appointed, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

Any certified public accountants' firm may resign its office by depositing at the Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding paragraph (2), a copy of such statement shall be placed at the Company's residence for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of H Shares at the address registered in the register of shareholders.

Where the certified public accountants' firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of the Company, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

(vii) *Dispute resolution*

Whenever any disputes or claims arising between holders of H Shares and the Company, holders of H Shares and the Company's Directors, Supervisors, managers, or other officers, or holders of H Shares and holders of Domestic Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

APPENDIX VI SUMMARY OF THE ARTICLES OF ASSOCIATION

If a claimant elects arbitration at HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of HKIAC.

If any disputes or claims of rights mentioned the previous paragraph are referred to arbitration, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was established in the PRC under the PRC Company Law as a joint stock limited company on 6th December, 1999. The Company has established a place of business in Hong Kong at 39th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as an overseas company under Part XI of the Companies Ordinance. Coudert Brothers of 39th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong has been appointed as the agent of the Company to accept on behalf of the Company service of process and notices required to be served on the Company in Hong Kong.

The establishment of the Company and its conversion into an overseas subscription company involved the following procedures and approvals:

- (a) on 20th August, 1999, the Promoters entered into a promoters' agreement pursuant to which, the Promoters agreed, among other things, to establish the Company;
- (b) on 25th November, 1999, 山東省經濟體制改革委員會 (Economic System Restructuring Commission of Shandong Province) issued 關於同意設立山東魏橋紡織股份有限公司的函 (魯體改函字 [1999] 第 71 號) (an approval for the establishment of Shandong Weiqiao Textile Company Limited (Lu Ti Gai Han Zi [1999] No. 71)), approving the establishment of the Company (in its former name);
- (c) on 25th November, 1999, 山東省人民政府 (Shandong Provincial Government) issued 批准証書 (魯政股字 [1999] 48 號) (an approval certificate (Lu Zheng Gu Zi [1999] No. 48)), approving the registered share capital of the Company in the amount of RMB202,040,000;
- (d) on 29th November, 1999, the Company convened an inaugural meeting, during which, the Promoters adopted the initial articles of association of the Company and appointed the initial Directors and Supervisors;
- (e) on 6th December, 1999, 山東省工商行政管理局 (Shandong Provincial Administration Bureau for Industry and Commerce) issued the business licence of the Company (Registration No. 3700001804676), certifying the Company's incorporation as a joint stock limited company;

- (f) on 8th November, 2002, the Company lodged 關於在境外公開發行H股股票並在香港聯交所主板上市的申請 (股總字 [2002] 38 號) (an application in relation to the issue and listing of H Shares on the Main Board of the Stock Exchange (Gu Zong Zi [2002] No. 38) with CSRC;
- (g) on 11th February, 2003, CSRC issued 關於同意受理山東魏橋紡織股份有限公司發行境外上市外資股申請的函 (國合函 [2003] 22 號) (a consent to the acceptance of the submission of an application by the Company for the issue of overseas listed foreign invested shares (Guo He Han [2003] No. 22));
- (h) on 12th February, 2003, the Company convened an extraordinary general meeting at which resolutions were duly passed approving, among other things, the conversion of the Company into an “overseas subscription company”, subject to the approval of SETC;
- (i) on 19th February, 2003, 山東省工商行政管理局 (Shandong Provincial Administration Bureau for Industry and Commerce) re-issued the business licence of the Company (Registration No. 3700001804676), certifying the change of the Company’s name from 山東魏橋紡織股份有限公司 to 魏橋紡織股份有限公司;
- (j) on 17th March, 2003, SETC issued 關於魏橋紡織股份有限公司轉為境外募集公司的函 (國經貿企改 [2003] 275號) (an approval for the conversion of the Company into an “overseas subscription company” (Guo Jing Mao Qi Gai [2003] No. 275)) approving, among other things, the conversion of the Company into an “overseas subscription company”;
- (k) on 29th July, 2003, CSRC issued 關於同意魏橋紡織股份有限公司發行境外上市外資股的批覆 (證監國合字 [2003] 23 號) (an approval for the issue of overseas listed foreign invested shares by Weiqiao Textile Company Limited (Zheng Jian Guo He Zi [2003] No. 23)) approving the issue of overseas listed foreign invested shares by the Company.

2. Changes in share capital

On 5th November, 2002, the registered capital of the Company was increased from RMB202,040,000, divided into 202,040,000 Domestic Shares, to RMB530,770,000, divided into 530,770,000 Domestic Shares, by an amount of RMB328,730,000 that was fully subscribed and paid up.

Upon completion of the Share Offer but without taking into account any H Shares which may be issued pursuant to the exercise of the Over-allotment Option, the registered capital of the Company will be increased from RMB530,770,000 to RMB780,540,000, divided into 530,770,000 Domestic Shares and 249,770,000 H Shares. Depending on the extent to which the Over-allotment Option is exercised, the registered capital of the Company may be increased to up to RMB818,005,500, divided into 530,770,000 Domestic Shares and up to 287,235,500 H Shares.

Save as disclosed above, there has been no other alteration in the registered capital of the Company within the two years preceding the date of this prospectus.

3. Proceedings at the Company's extraordinary general meeting held on 12th February, 2003

At the extraordinary general meeting of the Company held on 12th February, 2003, resolutions were duly passed to approve, among other things:

- (a) the conversion of the Company into an "overseas subscription company";
- (b) conditional upon (i) the Listing Committee of the Stock Exchange approving the listing of, and permission to deal in, the H Shares; and (ii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms therein or otherwise:
 - (i) the issue of 249,770,000 H Shares and upon full exercise of the Over-allotment Option, not more than 287,235,500 H Shares (including the additional 37,465,500 H Shares which may be issued upon the full exercise of the Over-allotment Option) by way of the Share Offer pursuant to the terms set out in this prospectus;
 - (ii) the granting of the Over-allotment Option;
 - (iii) the increase of the Company's registered capital by an amount equivalent to the nominal values of the aggregate number of H Shares to be issued under the Share Offer; and
 - (iv) the Listing; and
- (c) the adoption of the then existing articles of association of the Company as amended in accordance with the requirements of the Mandatory Provisions.

At the extraordinary general meeting of the Company held on 28th August, 2003, a resolution was duly passed to approve the amendment of the articles of association of the Company adopted on 12th February, 2003 as a result of which the Articles of Association became effective.

4. Corporate reorganisation

The Reorganisation which was effected in preparation for the Listing, involved the following:

- (a) on 19th September, 2002, Holding Company and the Company entered into a capital increase agreement, pursuant to which Holding Company injected all of the production operating assets (except for land use rights) and the related liabilities of the Second Production Area and Third Production Area, valued at an aggregate amount of RMB785,667,500, into the Company. In consideration for such transfer, the Company issued 328,730,000 new Domestic Shares to Holding Company at RMB2.39 per Domestic Share;
- (b) on 16th October, 2002, Binzhou Weiqiao, Holding Company and the Company entered into an equity interest transfer agreement, pursuant to which, the Company acquired 1% and 90% equity interests in Industrial Park from Binzhou Weiqiao and Holding Company, respectively, at a consideration of RMB1,000,000 and RMB90,000,000 respectively, and Holding Company acquired 9% equity interest in Industrial Park from Binzhou Weiqiao at a consideration of RMB9,000,000. Upon completion of the above acquisitions on 18th November, 2002, the Company held 91% equity interest in Industrial Park, and Holding Company held 9% equity interest in Industrial Park;
- (c) on 28th October, 2002, 山東省人民政府 (Shandong Provincial Government) issued 批准証書 (魯政股增字 [2002] 24 號) (an approval certificate (Lu Zheng Gu Zeng Zi [2002] No. 24)) approving the increase of the registered capital of the Company from RMB202,040,000 to RMB530,770,000;
- (d) on 5th November, 2002, 山東省工商行政管理局 (Shandong Provincial Administration Bureau for Industry and Commerce) re-issued the business licence of the Company (Registration No. 3700001804676), certifying the increase in the Company's registered capital from RMB202,040,000 to RMB530,770,000;
- (e) on 17th December, 2002, Holding Company and No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company entered into an equity interest transfer agreement, pursuant to which, an aggregate of 0.49% equity interest in the Company held by No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company was transferred to Holding Company at a total consideration of RMB2,600,000;

- (f) on 18th December, 2002, Holding Company, Zhang Hongxia, Zhang Shixue, Ma Guixia, Zhang Bo, Qi Xingli, Fan Xuelian, Wang Xuesong, Yang Shaogang, Wang Xiaoyun, Jiang Jianling, Zhang Xianbing, Kong Deqing, Song Shoujun and Li Xiuping entered into an equity interest transfer agreement, pursuant to which, Holding Company transferred an aggregate of 21.72% equity interest in the Company to the above 14 PRC nationals at a total consideration of RMB115,258,900;
- (g) on 27th December, 2002, 山東省人民政府 (Shandong Provincial Government) issued 批准証書 (魯政股字 [2002] 74 號) (an approval certificate (Lu Zheng Gu Zi [2002] No. 74)), approving the transfer of the equity interests of the Company referred to in paragraphs (e) and (f) above;
- (h) on 11th February, 2003, CSRC issued 關於同意受理山東魏橋紡織股份有限公司發行境外上市外資股申請的函 (國合函 [2003] 22 號) (a consent to the acceptance of the submission of an application by the Company for the issue of overseas listed foreign invested shares (Guo He Han [2003] No. 22));
- (i) on 12th February, 2003, the Company convened an extraordinary general meeting at which resolutions were duly passed approving, among other things, the conversion of the Company into an “overseas subscription company”, subject to the approval of SETC;
- (j) on 17th March, 2003, SETC issued 關於魏橋紡織股份有限公司轉為境外募集公司的函 (國經貿企改 [2003] 275號) (an approval for the conversion of the Company into an “overseas subscription company” (Guo Jing Mao Qi Gai [2003] No. 275)) approving, among other things, the conversion of the Company into an “overseas subscription company”;
- (k) by 31st March, 2003, the Company injected RMB200,000,000 into Industrial Park, as a result of which the Company held 97% equity interest in Industrial Park and Holding Company held 3% equity interest in Industrial Park; and
- (l) on 29th July, 2003, CSRC issued 關於同意魏橋紡織股份有限公司發行境外上市外資股的批覆 (證監國合字 [2003] 23 號) (an approval for the issue of overseas listed foreign invested shares by Weiqiao Textile Company Limited (Zheng Jian Guo He Zi [2003] No. 23)) approving the issue of overseas listed foreign invested shares by the Company.

Immediately following completion of the Share Offer, the H Shares then issued will constitute about 32% of the total issued share capital of the Company (assuming that the Over-allotment Option is not exercised).

5. Changes in the share capital of the subsidiaries

The principal subsidiaries of the Company and the existing share capital of such subsidiaries are set out in the accountants' report, the text of which is set out in appendix I to this prospectus.

Save as disclosed in section headed "Business — 1. Reorganisation of assets structure" in this prospectus and the section headed "4. Corporate Reorganisation" in appendix VII to this prospectus, there has been no alteration in the share capital of any of the principal subsidiaries of the Company within the two years preceding the date of this prospectus.

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**

The following contracts have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) capital increase agreement (in Chinese) dated 19th September, 2002 between Holding Company and the Company regarding the injection of certain production operating assets and liabilities by Holding Company into the Company. As consideration for the above injection, the Company issued 328,730,000 Domestic Shares to Holding Company at RMB2.39 per Domestic Share;
- (b) sino-foreign equity joint venture contract (in Chinese) dated 14th October, 2002 between the Company, Itochu and Profit Rich Company regarding the establishment of Luteng Textile for the production and sale of mainly spandex core-spun yarn. Pursuant to the contract, the Company, Itochu and Profit Rich Company have made contribution amounting to US\$7,340,000, US\$1,000,000 and US\$1,450,000, respectively, to the capital of Luteng Textile;
- (c) equity interest transfer agreement (in Chinese) dated 16th October, 2002 between Binzhou Weiqiao, Holding Company and the Company, pursuant to which the Company acquired from Holding Company and Binzhou Weiqiao 90% and 1% equity interest, respectively, in Industrial Park at a consideration of RMB90 million and RMB1 million respectively, and Holding Company acquired from Binzhou Weiqiao its 9% equity interest in Industrial Park at a consideration of RMB9 million;
- (d) supply of products, raw materials and processing services agreement (in Chinese) dated 25th August, 2003 between the Company and Holding Company regarding the provision (1) by Parent Group to the Group; and (2) by the Group to Parent Group, of certain products, raw materials and processing services. Supply of (1) cotton by Holding Company to the Group is at prices determined by reference to the prices at which comparable types of cotton

are supplied by independent third parties; (2) cotton yarn and cotton fabric by the Group to Parent Group is at prices determined by reference to the prices at which comparable types of cotton yarn and cotton fabric are supplied by the Group to independent third parties; and (3) processing services by Parent Group to the Group is at fees determined by reference to the fees at which comparable types of processing services are provided by independent third parties, all under normal commercial terms in the ordinary course of their businesses in the PRC;

- (e) supply of electricity and steam agreement (in Chinese) dated 25th August, 2003 between the Company and Holding Company regarding the supply of electricity and steam by Holding Company to the Group. The price at which electricity is provided to the Group by Holding Company shall be the lower of either RMB0.35 per kWh or the market price. The price at which steam is provided to the Group by Holding Company shall be the lower of either RMB60 per ton or the market price;
- (f) land use rights leasing agreements (in Chinese) dated 30th September, 2002 and 14th May, 2003 between the Company and Holding Company regarding the leasing of land use rights in respect of certain land located in the Second Production Area and Third Production Area by Holding Company to the Company at an annual rent of RMB888,700 and RMB1,503,000, respectively;
- (g) land use right leasing agreement (in Chinese) dated 13th September, 2002 between Holding Company and Luteng Textile regarding the leasing of land use right in respect of certain land located in the First Production Area by Holding Company to Luteng Textile at an annual rent of RMB60,700;
- (h) equipment transfer agreement (in Chinese) dated 25th August, 2003 between the Company and Holding Company regarding the transfer of certain cotton processing equipment at nil consideration by Holding Company to the Company;
- (i) Non-Competition Agreement (in Chinese) regarding certain non-competition undertakings given by each of Holding Company and ZCSU, for nil value;
- (j) right of first refusal agreement (in Chinese) dated 25th August, 2003 between the Company and Holding Company regarding the grant of a right of first refusal to the Company by Holding Company, for nil value, to acquire its entire interests in certain downstream textile processing and corduroy production businesses;
- (k) transfer and offset of current liabilities agreement (in Chinese) dated 16th June, 2003 between members of each of the Group and Parent Group pursuant to which, the parties agree that certain debts of about RMB247,616,000 due from the Group to Parent Group shall be offset against certain debts of about RMB267,271,000 due from Parent Group to the Group;

- (l) Underwriting Agreement referred to in the section headed “Underwriting — Underwriting arrangements and expenses” in this prospectus; and
- (m) deed of indemnity dated 11th September, 2003 between Holding Company and the Company pursuant to which, Holding Company provided a taxation indemnity for the Group.

2. Intellectual property rights

The following trademarks have been transferred to the Company by Holding Company at nil consideration. Details of such transfers are set out in the section headed “Business — Transfer of intellectual property rights” in this prospectus. As at the Latest Practicable Date, the Company was the registered owner of the following trademarks in the PRC.

	Trademark	Registered Owner	Effective Period	Class	Registration Number
1.		Company	21st July, 1994 to 20th July, 2004	23 ⁽¹⁾	698877
2.		Company	7th October, 1994 to 6th October, 2004	24 ⁽²⁾	709627
3.		Company	14th January, 2002 to 13th January, 2012	23 ⁽³⁾	1696613
4.		Company	28th February, 2002 to 27th February, 2012	24 ⁽⁴⁾	1720643
5.		Company	21st January, 2002 to 20th January, 2012	25 ⁽⁵⁾	1701188

Notes:

- (1) Class 23 relates to cotton yarn.
- (2) Class 24 relates to fabric.
- (3) Class 23 relates to yarn, cotton thread and cotton yarn, thread and yarn for weaving, elastic yarn and thread for weaving.
- (4) Class 24 relates to yarn, crepe (fabric), spun elastic fabric, twill, printed cotton fabric and denim.
- (5) Class 25 relates to working wears, underwear, shirt garment, knitwear, T-shirt and children wear.

As at the Latest Practicable Date, the Company had applied to the 中華人民共和國國家工商行政管理總局商標局 (Trademark Bureau of the State Administration for Industry and Commerce of the PRC) for the registration of the following trademarks and logo. Such applications are currently under review by 中華人民共和國國家工商行政管理總局商標局 (Trademark Bureau of the State Administration for Industry and Commerce of the PRC).









	Trademark	Class	Application Number	Application Date
1.	 魏紡	23 ⁽¹⁾	3447905	27th January, 2003
2.	 魏紡	24 ⁽²⁾	3447904	27th January, 2003
3.	 魏紡	25 ⁽³⁾	3447903	27th January, 2003
4.	 魏棉	23 ⁽¹⁾	3447922	27th January, 2003
5.	 魏棉	24 ⁽²⁾	3447921	27th January, 2003
6.	 魏棉	25 ⁽³⁾	3447920	27th January, 2003
7.	 	23 ⁽¹⁾	3640794	21st July, 2003

Notes:

- (1) Class 23 relates to yarn, cotton thread and cotton yarn, thread and yarn for weaving, elastic yarn and thread for weaving.
- (2) Class 24 relates to yarn, crepe (fabric), spun elastic fabric, twill, printed cotton fabric and denim.
- (3) Class 25 relates to working wears, underwear, shirt garment, knitwear, T-shirt and children wear.

APPENDIX VII
STATUTORY AND GENERAL INFORMATION

As at the Latest Practicable Date, the Company had applied for the registration of the following trademarks in Hong Kong and Japan.

	Trademark	Place of application for registration	Proposal Registered Owner	Class	Application Number	Date of Application
1.		Hong Kong	Company	23 ⁽¹⁾	300018972	15th May, 2003
2.		Hong Kong	Company	24 ⁽²⁾	300019007	15th May, 2003
3.		Hong Kong	Company	23, 24 ^(1,2)	300054035	28th July, 2003
4.		Japan	Company	23 ⁽³⁾	2003-057592	25th June, 2003
5.		Japan	Company	24 ⁽⁴⁾	2003-057591	25th June, 2003
6.		Japan	Company	23, 24 ^(3,4)	2003-063156	11th July, 2003
7.		Japan	Company	23 ⁽³⁾	2003-067881	25th July, 2003
8.		Japan	Company	24 ⁽⁴⁾	2003-067880	25th July, 2003

Notes:

(1) Class 23 relates to cotton yarn.

(2) Class 24 relates to fabric, crepe (fabric), spinned elastic fabric, twill, printed cotton fabric and denim.

(3) Class 23 relates to yarns, cotton yarns.

(4) Class 24 relates to woven fabrics, cotton fabrics, hemp yarn fabrics, silk fabrics, wool yarn fabrics, chemical fibre fabrics, inorganic fibre fabrics, mixed fibre fabrics, mixed yarn fabrics, narrow woven fabrics, paper yarn fabrics, covered rubber yarn fabrics, cloth, crepe (fabric), elastic woven material, dimitry, printed calico cloth, denim.

C. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND STAFF

Directors and Supervisors

1. *Particulars of service contracts and letters of appointment*

Each of the executive Directors and Supervisors (excluding the independent Supervisors) has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, independent non-executive Directors and independent Supervisors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Articles of Association, the remuneration of the Directors and the Supervisors will be determined by the shareholders in the general meeting.

The remuneration payable to each of the executive Directors for the year ending 31st December, 2003 is estimated to be as follows:

Zhang Bo	RMB300,000
Zhang Hongxia	RMB250,000
Qi Xingli	RMB200,000
Zhao Suwen	RMB150,000

The remuneration payable to each of the non-executive Directors for the year ending 31st December, 2003 is estimated to be as follows:

Mr. Zhang	RMB100,000
Wang Zhaoting	RMB80,000

The remuneration payable to each of the independent non-executive Directors for the year ending 31st December, 2003 is estimated to be as follows:

Wang Naixin	RMB30,000
Xu Wenying	RMB100,000
Chan Wing Yau, George	RMB254,760

The remuneration payable to each of the Supervisors for the year ending 31st December, 2003 is estimated to be as follows:

Lu Tianfu (<i>note</i>)	RMB50,000
Wang Wei (<i>note</i>)	RMB50,000
Liu Mingping	RMB30,000

Note: Independent Supervisor

2. *Directors' and Supervisors' remuneration*

The aggregate amount of remuneration paid by the Company and its subsidiaries to the Directors and the Supervisors during each of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 was about RMB236,000, RMB232,000, RMB212,000 and RMB341,000, respectively.

Save as disclosed above, no other emoluments have been paid or are payable, in respect of the three years ended 31st December, 2002 and the three months ended 31st March, 2003 by the Company and its subsidiaries to the Directors and Supervisors.

Under the arrangements currently in force, the Company estimates that the aggregate remuneration of the Directors and Supervisors payable by the Company and its subsidiaries for the year ending 31st December, 2003 to be about RMB1,594,760. In addition, for the year ending 31st December, 2003, the Company has recorded the payment of an aggregate sum of RMB5,584 as remuneration to two former directors who ceased to be the Company's directors from February 2003.

3. *Disclosure of interests*

- (a) Disclosure of the interests of the Directors and Supervisors in the share capital of the Company and its associated corporations

Immediately following completion of the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option), the interests and short positions of the Directors and the Supervisors in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance) which will be required to be disclosed pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions in which they are taken or deemed to have taken under the Securities and Futures Ordinance), or which will be required, pursuant to section 347 of the Securities and Futures Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, or which will be required, pursuant to section 352 of the

Securities and Futures Ordinance, to be entered in the register referred to therein, once the H Shares are listed, are as follows:

The Company

Name of Director/ Supervisor	Number of Domestic Shares					Approximate percentage of shareholding immediately after the Share Offer
	Corporate interests	Personal interests	Family interests	Other interests	Total interests	

(Note 1)

Executive Directors

Zhang Bo	—	12,932,000	—	—	12,932,000	1.66%
Zhang Hongxia	—	17,700,400	—	—	17,700,400	2.27%
Qi Xingli	—	8,052,500	—	—	8,052,500	1.03%

Non-executive Director

Mr. Zhang	—	5,200,000	—	—	5,200,000	0.67%
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Associated Corporations

Name of Director/ Supervisor	Name of associated corporation	Type of interest	Approximate percentage of shareholding in the associated corporation

(Note 1)

Mr. Zhang	Holding Company	Personal	4.53%
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Note 1: Assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option.

- (b) Disclosure of the interests of the substantial shareholders in the share capital of the Company

So far as the Directors are aware, immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised), the following persons (not being a Director or chief executive of the Company) are interested in the following percentage of the Shares carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of Domestic Shares	Approximate percentage of shareholding immediately after the Share Offer (Note 1)
ZCSU	410,311,100 (Note 2)	52.57%
Holding Company	410,311,100 (Note 3)	52.57%

Notes:

1. Assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option.
2. These 410,311,100 Domestic Shares are deemed corporate interests under the Securities and Futures Ordinance indirectly held through Holding Company, in which ZCSU has a controlling interest.
3. These 410,311,100 Domestic Shares are directly held by Holding Company.

Save as disclosed herein, but not taking into account any Shares which may be taken up under the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option), the Directors are not aware of any legal person or individual (not being a Director or chief executive of the Company) who will, immediately following completion of the Share Offer (assuming that no H Share is issued pursuant to the exercise of the Over-allotment Option), will have interests or short positions in the shares or underlying shares of the Company (which are discloseable under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance), or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (which are discloseable under the Listing Rules).

Disclaimers

- (a) Save as disclosed in the section headed “Disclosure of interests” in this appendix, none of the Directors or Supervisors has any interest or short position in the equity or debt securities of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance) which will be required to be disclosed pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which they are taken or deemed to have taken under the Securities and Futures Ordinance), or which will be required, pursuant to section 347 of the Securities and Futures Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, or which will be required, pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, once the H Shares are listed on the Stock Exchange.
- (b) Save as disclosed in the section headed “Disclosure of interests” in this appendix, so far as is known to any Director or Supervisor, there is no person who will, immediately following the completion of the Share Offer, be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any of its subsidiaries.
- (c) Save as disclosed in the section headed “Particulars of service contracts and letters of appointment” in this appendix, there is no existing or proposed service contract (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between any member of the Company and its subsidiaries and any of the Directors or Supervisors.
- (d) Save as disclosed in the section headed “Business” of this prospectus, none of the Directors, Supervisors or any of the persons referred to in paragraph D7 of this appendix is interested in the promotion of the Company or in any assets which have been within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to any member of the Company and its subsidiaries, or are proposed to be so acquired, disposed of or leased.

- (e) None of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.
- (f) None of the persons referred to in paragraph D7 of this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of Group.
- (g) Save as disclosed in the section headed “Business” of this prospectus, no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any Promoter nor is any such amount or benefit intended to be paid or given.
- (h) As at the Latest Practicable Date, (i) Mr. Zhang (a non-executive Director) was the chairman and a shareholder of Holding Company and the chairman of each of Weiqiao Dyeing and Binzhou Weiqiao; (ii) Zhang Hongxia (the general manager and an executive director of the Company) was a non-executive director of Holding Company; and (iii) Holding Company (the controlling shareholder of the Company) was the holder of 60% and 75% equity interest in Weiqiao Dyeing and Binzhou Weiqiao respectively. Save for the above, as at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates (as defined in the Listing Rules) or any shareholder of the Company (who to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) had any interest in any of the five largest suppliers or five largest customers of the Group as at the Latest Practicable Date. Save for the above, as at the Latest Practicable Date, none of the Directors or Supervisors was a director or employee of a company which had an interest in the share capital of the Company which, once the H Shares are listed, would have to be disclosed by the Company under the provisions of Part XV of the Securities and Futures Ordinance.

D. OTHER INFORMATION**1. Estate Duty and Tax Indemnities**

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under PRC law. The Company (for itself and as trustee of its subsidiaries) has received an indemnity from Holding Company in respect of liabilities (if any) for taxation (including estate duty) of the Group.

2. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claims of material importance are known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

3. Sponsor

BNP Paribas Peregrine has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of and permission to deal in the H Shares to be issued as mentioned in this prospectus.

4. Agency fees or commissions

Within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage fees or other special terms had been granted in connection with the issue or sale of the shares or loan capital of the Company or any of its subsidiaries.

5. Preliminary expenses

The preliminary expenses of the Company relating to its establishment as a joint stock limited company in the PRC amounted to about RMB550,000 (about HK\$520,000) and are payable by the Company.

6. Promoters and shareholders

The promoters of the Company are Holding Company, Mr. Zhang, No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company. Pursuant to an equity interest transfer agreement entered into between Holding Company, No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company on 17th December, 2002, an aggregate of 0.49% equity interest in the Company held by No. 2 Oil and Cotton Factory, No. 4 Oil and Cotton Factory, No. 5 Oil and Cotton Factory and No. 6 Oil and Cotton Company was transferred to Holding Company at a total consideration of RMB2,600,000. Pursuant to an equity interest transfer agreement entered into between Holding Company, Zhang Hongxia, Zhang Shixue, Ma Guixia, Zhang Bo, Qi Xingli, Fan Xuelian, Wang Xuesong, Yang Shaogang, Wang Xiaoyun, Jiang Jianling, Zhang Xianbing, Kong Deqing, Song Shoujun and Li Xiuping on 18th December, 2002, Holding Company transferred a total of 21.72% equity interest in the Company to the above 14 PRC nationals at a total consideration of RMB115,258,900. Upon completion of the above transfers, the shareholders of the Company were Holding Company, Mr. Zhang, Zhang Hongxia, Zhang Shixue, Ma Guixia, Zhang Bo, Qi Xingli, Fan Xuelian, Wang Xuesong, Yang Shaogang, Wang Xiaoyun, Jiang Jianling, Zhang Xianbing, Kong Deqing, Song Shoujun and Li Xiuping.

Save as disclosed in the section headed “Business” in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters.

7. Consents and qualifications of parties

Each of BNP Paribas Peregrine (as the Sponsor), Ernst & Young (as the Company's auditors and reporting accountants), Chesterton Petty Limited (as the Company's property valuer) and Jingtian & Gongcheng (as the Company's legal adviser on PRC law) has given and has not withdrawn its respective written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificates and/or opinion and/or the references to its name in the form and context in which they are respectively included.

The following are the qualifications of the parties who have given their opinion in this prospectus:

Name	Qualifications
BNP Paribas Peregrine	Corporation deemed licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
Ernst & Young	Certified public accountants
Chesterton Petty Limited	Independent, chartered surveyors and real estate consultants
Jingtian & Gongcheng	PRC lawyers

8. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

9. **Miscellaneous**

- (a) Save as disclosed in the section headed “Business” in this prospectus, within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or a consideration other than cash.
- (b) No share or loan of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) Within the two years preceding the date of the prospectus, no commission has been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in the Company.
- (d) The Directors confirm that since 31st March, 2003 there has been no material adverse change in the financial or trading position of the Company or its subsidiaries.
- (e) There are no founders, management or deferred shares in the Company and its subsidiaries.
- (f) The Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the PRC Sino-Foreign Equity Joint Venture Law (as amended and supplemented from time to time) promulgated on 1st July, 1979 by NPC.
- (g) The Company has no outstanding convertible debt securities.
- (h) None of the parties referred to in paragraph D7 is an officer or servant or a partner of or in employment of an officer or servant of the Company or its subsidiaries.

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION
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1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong were the **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed “Consents and qualifications of parties” in appendix VII to this prospectus, and copies of the material contracts as referred to in the paragraph headed “Summary of material contracts” in appendix VII to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Coudert Brothers, 39/F, Gloucester Tower, the Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including 2nd October, 2003:

- (A) the Articles of Association (in Chinese) and its English version (for reference purposes only);
- (B) the accountants’ report prepared by Ernst & Young, the text of which is set out in appendix I to this prospectus;
- (C) the audited consolidated accounts of the Group for the three financial years ended 31st December, 2002 and the three months ended 31st March, 2003;
- (D) the letter and valuation certificate relating to the property interests of the Company prepared by Chesterton Petty Limited, the text of which is set out in appendix IV to this prospectus, and the full valuation report (with only address in Chinese) of Chesterton Petty Limited as referred to in appendix IV to this prospectus;
- (E) material contracts referred to under the paragraph headed “Summary of material contracts” in appendix VII to this prospectus, and their respective unofficial English translation (where applicable);
- (F) the written consents referred to under the paragraph headed “Consents and qualifications of parties” in appendix VII to this prospectus;
- (G) the letters issued by Ernst & Young and BNP Paribas Peregrine relating to profit forecast, the texts of which are set out in appendix III to this prospectus;
- (H) service contracts (in Chinese) entered into between the Company and each of the executive Directors on 25th August, 2003, the important details of which are set out under the paragraph headed “Particulars of service contracts and letters of appointment” in appendix VII to this prospectus, and their respective unofficial English translation;

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION
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- (I) letters of appointment (in Chinese) entered into between the Company and each of the non-executive Directors and independent non-executive Directors on 25th August, 2003, the important details of which are set out under the paragraph headed “Particulars of service contracts and letters of appointment” in appendix VII to this prospectus, and their respective unofficial English translation;
- (J) service contracts (in Chinese) entered into between the Company and each of the Supervisors (excluding independent Supervisors) on 25th August, 2003, the important details of which are set out under the paragraph headed “Particulars of service contracts and letters of appointment” in appendix VII to this prospectus, and their respective unofficial English translation;
- (K) letters of appointment (in Chinese) entered into between the Company and each of the independent Supervisors on 25th August, 2003, the important details of which are set out under the paragraph headed “Particulars of service contracts and letters of appointment” in appendix VII to this prospectus, and their respective unofficial English translation;
- (L) the PRC Company Law and its unofficial English translation;
- (M) the Special Regulations and its unofficial English translation;
- (N) the Mandatory Provisions and its unofficial English translation;
- (O) the Provisional regulations on the administration of the issue and transaction of stocks (22nd April, 1993) and its unofficial English translation;
- (P) the Provisional method on the prohibition of securities frauds (15th August, 1993) and its unofficial English translation;
- (Q) the Regulations of the State Council regarding the listing of foreign Shares by joint stock limited companies in the PRC (25th December, 1995) and its unofficial English translation;
- (R) the Securities Law of the PRC promulgated by the Standing Committee of the National People’s Congress on 29th December, 1998 and effective from 1st July, 1999 and its unofficial English translation;
- (S) the Opinions regarding further promotion of the standardized operation and in-depth reformation of overseas listed companies issued by the SETC and CRSC on 29th March, 1999 and its unofficial English translation;
- (T) the Arbitration Law of the PRC promulgated by the Standing Committee of the National People’s Congress on 31st August, 1994 and effective from 1st September, 1995 and its unofficial English translation;

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION
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- (U) the Civil Litigation Law of the PRC promulgated by the Premier of the PRC at the 4th Meeting of the Seventh National People's Congress on 9th April, 1991 and effective from 9th April, 1991 and its unofficial English translation;
- (V) the Provisional Regulations regarding the establishment of joint stock limited companies by foreign investors promulgated by MOFTEC on 10th January, 1995 and its unofficial English translation; and
- (W) the PRC legal opinion issued by Jingtian & Gongcheng, the PRC legal adviser to the Company on 15th September, 2003.