KAM HING INTERNATIONAL HOLDINGS LIMITED

錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

PLACING AND PUBLIC OFFER

Sponsor

大福融資有限公司
TAI FOOK CAPITAL LIMITED

Lead Manager

大福證券有限公司
TAI FOOK SECURITIES COMPANY LIMITED

IMPORTANT

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

KAM HING INTERNATIONAL HOLDINGS LIMITED

錦興國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

PLACING AND PUBLIC OFFER

Number of Offer Shares	**:**	**160,000,000 Shares (subject to the Over-allotment Option)**
Number of Placing Shares	**:**	**144,000,000 Shares (subject to the Over-allotment Option and reallocation)**
Number of Public Offer Shares	**:**	**16,000,000 Shares (subject to reallocation)**
Offer Price	**:**	**Not more than HK$1.61 per Offer Share (payable in full on application and subject to refund) and expected to be not less than HK$1.13 per Offer Share**
Nominal value	**:**	**HK$0.10 each**
Stock code	**:**	**2307**

Sponsor

大福融資有限公司
TAI FOOK CAPITAL LIMITED

Lead Manager

大福證券有限公司
TAI FOOK SECURITIES COMPANY LIMITED

Co-Lead Managers

SBI E2-Capital Securities Limited **Goldbond Securities Limited**

Co-Managers

CCB International Capital Limited
FB Gemini Securities Limited
Grand Vinco Capital Limited
Kingsway Financial Services Group Limited
Luen Fat Securities Company Limited
Pacific Foundation Securities Limited
Phillip Securities (HK) Ltd.
Phoenix Capital Securities Limited
Standard Bank Asia 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 VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission 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 Offer Price is expected to be determined by the Price Determination Agreement between the Lead Manager (for itself and on behalf of the Underwriters) and the Company at or before the Price Determination Time. The Price Determination Time is expected to be at or before 9:00 a.m. (Hong Kong time) on 18 September 2004 and, in any event, not later than 12:00 noon (Hong Kong time) on 18 September 2004. The Offer Price will fall within the Offer Price range in this prospectus unless otherwise announced, as explained below. Investors applying for Offer Shares must pay the maximum Offer Price of HK$1.61 per Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and SFC investor compensation levy of 0.002%. The Lead Manager (for itself and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that as stated in this prospectus (which is HK$1.13 per Offer Share to HK$1.61 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in 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 day which is the last day for lodging applications under the Public Offer. If applications for 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 be subsequently withdrawn. If, for any reason, the Offer Price is not agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company by the Price Determination Time, the Share Offer will not proceed and lapse.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Share Offer, Tai Fook Securities (for itself and on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 6:00 p.m. (Hong Kong time) on 22 September 2004, the day immediately prior to the date on which the Shares commence trading on the Stock Exchange (such date is currently expected to be 23 September 2004). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

14 September 2004

	2004 *(Note 1)*
Latest time for lodging **WHITE** and **YELLOW** application forms	12:00 noon on Friday, 17 September
Application lists of the Public Offer open *(Note 2)*	11:45 a.m. on Friday, 17 September
Application lists of the Public Offer close *(Note 2)*	12:00 noon on Friday, 17 September
Price Determination Time *(Note 3)*	at or before 9:00 a.m. on Saturday, 18 September
Announcement of the Offer Price, indication of the level of interests in the Placing, the results of the Public Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification document numbers, where appropriate) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Wednesday, 22 September
Despatch of refund cheques in respect of wholly or partially unsuccessful applications under the Public Offer on or before *(Note 4)*	Wednesday, 22 September
Despatch of Share certificates on or before *(Note 4)*	Wednesday, 22 September
Dealings in the Shares on the Stock Exchange to commence on	Thursday, 23 September
Latest time for the exercise of the Over-allotment Option	Friday, 15 October

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 a "**black**" rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 17 September 2004, the application lists will not open and close on that day. See the paragraph headed "Effect of bad weather on the opening of the application lists" in the section headed "How to apply for the Public Offer Shares" of this prospectus.

3. The Price Determination Time is expected to be at or before 9:00 a.m. on Saturday, 18 September 2004 and, in any event, not later than 12:00 noon on 18 September 2004. If, for any reason, the Offer Price is not agreed between the Lead Manager (on behalf of the Underwriters) and the Company by the Price Determination Time, the Share Offer will not proceed and lapse.

4. Applicants who apply with **WHITE** application forms for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong share registrar may collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong share registrar, Tricor Investor Services Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 22 September 2004. Identification and authorisation documents (where applicable) acceptable to Tricor Investor Services Limited must be produced at the time of collection.

   Applicants who apply with **YELLOW** application forms for 1,000,000 Public Offer 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 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 **YELLOW** application form applicants is the same as that for **WHITE** application form applicants.

   Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post and at the own risk of the applicants shortly after the day as described in the paragraph headed "Collection/posting of Share certificates/refund cheques and deposit of Share certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

5. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 22 September 2004 for credit to the respective CCASS participant's stock accounts designated by the Placing Underwriters, the placees or their agents, as the case may be.

6. No temporary documents of title will be issued. Share certificates which will be issued on 22 September 2004 will only become valid certificates of title after 6:00 p.m. (Hong Kong time) on 22 September 2004 provided that (i) the Share Offer becomes unconditional in all respects and (ii) the right of termination as described in the paragraph "Grounds for termination" in the section headed "Underwriting" of this prospectus has not been exercised thereto and has lapsed.

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You should rely only on the information contained in this prospectus and the related 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 and the related application forms.

Any information or representation not made in this prospectus and the related application forms must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or parties involved in the Share Offer.

The contents on the website www.kam-hing.com.hk do not form part of this prospectus.

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This summary aims to give you an overview of the information contained in this prospectus. As it 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 Offer Shares.

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

BUSINESS

The Group is principally engaged in the manufacture and sale of finished knitted fabrics. During the Track Record Period, the Group's merchandise was sold to various garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell garment products to the consumers in the US and other countries. Many of the Group's products have been made into garments bearing international brands carried by companies such as Gap Inc., Target Corp., May Department Stores, Eddie Bauer Inc., Associated Merchandising Corp. and Sears. Apart from knitting and dyeing fabrics for its own sale, the Group has occasionally provided knitting and dyeing services for other fabric manufacturers which accounted for approximately 1% of the Group's total turnover for each of the three years ended 31 December 2003 and the four months ended 30 April 2004.

The Group was established in November 1996 when KH Textile was incorporated in Hong Kong. Since then, through years of operation, the Group has established itself as one of the leading yarn knitting and fabric dyeing manufacturers in Hong Kong. For the year ended 31 December 2003, the Group recorded a turnover of approximately HK$1,101.6 million and a net profit attributable to shareholders of approximately HK$96.4 million. For the four months ended 30 April 2004, the Group recorded a turnover of approximately HK$385.8 million and a net profit attributable to shareholders of approximately HK$28.3 million. During the Track Record Period, the Group's sales to customers in Singapore, Hong Kong and Taiwan together accounted for approximately 82.1%, 85.2%, 85.7% and 84.6% respectively of the Group's total sales in each of the three years ended 31 December 2003 and the four months ended 30 April 2004.

The Group's production facilities are located in Panyu, Guangdong, the PRC. As at the Latest Practicable Date, the annual knitting and dyeing capacities of the Group were approximately 74.4 million pounds and 101.5 million pounds respectively. The Group's executive headquarters is based in Hong Kong and is responsible for the management, sales and marketing, administration and finance, and purchasing functions of the Group.

Equipped with vertically integrated production facilities, the Group is able to handle a wide range of fabric production procedures including fabric knitting, dyeing, setting and finishing. The Group is therefore capable of producing a variety of finished knitted fabrics to meet its customers' different specifications and requirements. Different fabric products are derived from the combination of various cotton counts and knitting methods. These products are available in a wide range of colours and also in specially-designed patterns. During the Track Record Period, the Group manufactured a wide variety of knitted fabrics that can be broadly classified into three categories, namely the basic series, functional series and novelty series. Each series respectively accounted for approximately 59.2%, 27.9% and 12.9% of the total turnover of knitted fabrics recorded by the Group for the four months ended 30 April 2004.

COMPETITIVE STRENGTHS

Based on the Group's scale of operation and financial performance as compared to other leading fabric manufacturers listed on the Stock Exchange, the Directors consider the Group to be one of the leading manufacturers of quality fabrics in Hong Kong. The Directors believe that the Group is capable of carrying on its business independently and its success is attributable to the following principal factors:

- the Group's economies of scale and well-organised production facilities in Panyu, the PRC;
- well-established relationships with garment manufacturers and certain international fashion apparel brand operators;
- the Group's commitment to maintaining and improving its product quality and its ability to provide a variety of products;
- extensive experience and expertise of the Group's management team in the textile industry;
- fine and skilful workmanship; and
- well-established relationships with suppliers of raw materials.

With the expected increase in demand of consumer goods in the US, as well as the considerable development growth potential in the PRC textile market, the Directors believe that the Group is well positioned to capture the world's fabric market and to further develop new market opportunities leveraging on its scalable production base, high product quality and wide-ranging product categories.

FUTURE PLANS AND PROSPECTS

Because of its stringent quality control procedures, the Group did not have any material sales returns due to defects from its customers during the Track Record Period and has established itself as a reliable manufacturer of quality knitted fabrics. The Directors believe that the market demand for knitted fabrics will continue to grow and the Directors also anticipate that the worldwide quota on textile products will gradually be removed upon the PRC's entry into the WTO. In light of this favourable business environment, the Group's objective is to become a leading knitted fabric manufacturer in South East Asia, offering a wide series of quality knitted fabric products in different markets.

In order to maintain the Group's market share and to tap market potential, the Group's primary plan is to expand its production scale. The Directors believe that maintaining sizable production facilities will reduce production unit cost, shorten delivery time and provide better quality services to the customers. To cope with the expected growth in demand of the textile products mentioned above, the Group has formulated a series of development plans as set out in the following paragraphs.

Further vertical integration

Fabric dyeing involves colouring on grey fabrics whereas yarn dyeing offers the flexibility of knitting fabrics with more complicated colour patterns. During the Track Record Period, the Group purchased raw yarns from independent suppliers and outsourced the yarn dyeing process to other manufacturers. As at the Latest Practicable Date, the Group has invested approximately HK$80 million in setting up its yarn dyeing facilities. It is expected that this yarn dyeing operation will commence commercial operation in late September 2004, the annual production capacity of which is expected to be approximately 30 million pounds. The Group intends to apply approximately HK$15 million from the net proceeds of the Share Offer for the purchase of additional yarn dyeing machinery. The Directors believe that the establishment of the new yarn dyeing operation will benefit the Group by reducing production unit cost, improving quality control and reducing production lead time. Moreover, the newly established yarn dyeing facilities will enable the Group to offer a wider product range to its customers.

Apart from the yarn dyeing operation, the Directors may in the future consider other up-stream vertical integration alternatives including, but not limited to, the spinning of cotton yarn.

Expansion of the production capacity

The Directors are of the view that customers usually prefer or even demand shorter delivery time. Therefore, the Group intends to expand its production capacity by constructing additional factory premises and purchasing new machinery so that it will be able to accept more orders and reduce production lead time. The Group intends to apply approximately HK$35 million for the acquisition of 175 additional sets of cylinder knitting machines, approximately HK$31 million for the acquisition of approximately 68 additional fabric dyeing tanks, and approximately HK$9 million for the acquisition of other processing facilities including setting machines. Upon completion of this expansion, it is expected that each of the Group's annual fabric dyeing and knitting capacities will increase to approximately 120 million pounds by the end of 2005. Since the purchase cost of the knitting machines is in general lower than that of the dyeing facilities, the Directors consider the estimated amount of HK$35 million to be sufficient for the knitting capacity to increase to a level comparable to the Group's increased dyeing capacity. To house these additional production facilities, a new factory complex will be required. The Directors plan to apply approximately HK$25 million for the construction of a factory complex with a total floor area of over 22,000 sq.m. on the Group's existing land. The construction is expected to commence in October 2004 and complete in around the second quarter of 2005.

Installation of an additional power and steam generator

Besides raw materials like yarn and dyeing materials, electricity and steam supplies are also key elements to the Group's production. In order to process a large amount of materials under a tight production schedule, the Group's machinery has to be run virtually round-the-clock. Therefore, it is crucial for the Group to have steady supply of electricity and steam. In the past, the Group has relied on the electricity supply of the local electricity network and has initially set up a 7,000 KW power and steam generator which is designed specifically to supply the Group's electricity and steam consumption needs. In consideration of the expected increase in future production capacity, the Directors intend to install a 18,000 KW additional power and steam generator, which is expected to start operation in mid-2005.

Market expansion

With the liberalisation and globalisation of the garment industry, the Directors believe that the North American sector of the industry will continue to be promising and that the PRC market will offer tremendous development potential. The Group will continue to consolidate relationships with existing customers in Singapore, Taiwan and Hong Kong and has identified Korea and Europe as its next strategic locations for expansion. The Group has established Kam Sing, a wholly-owned subsidiary, with a view to developing the domestic knitted fabric market in the PRC. The Group plans to further expand its distribution network by establishing sales points in these identified locations and by strengthening its sales and marketing team.

USE OF PROCEEDS

Based on an Offer Price of HK$1.37 per Offer Share (being the mid-point of the Offer Price range between HK$1.13 per Offer Share and HK$1.61 per Offer Share), the gross proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised, are estimated to be approximately HK$219 million. The net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting the expenses payable by the Company, are estimated to be approximately HK$203 million. At present, the Directors intend to apply the net proceeds to the following purposes:

- approximately HK$100 million for the expansion of production capacity, of which approximately HK$35 million for the acquisition of additional knitting facilities, approximately HK$31 million for the acquisition of additional fabric dyeing tanks, approximately HK$9 million for the acquisition of processing facilities, and approximately HK$25 million for the construction of factory buildings for such an expansion;

- approximately HK$50 million for the installation of an additional power and steam generator;
- approximately HK$15 million for the purchase of additional machinery required for the yarn dyeing operation;
- approximately HK$12 million for the expansion of the marketing distribution network;
- approximately HK$10 million for product development; and
- the balance of approximately HK$16 million to be used as additional general working capital of the Group.

In the event that the Offer Price is fixed at HK$1.61 per Offer Share, being the highest point of the indicative Offer Price range, the net proceeds will be increased by approximately HK$37 million. The Directors intend to apply approximately 60% of such additional net proceeds for the purchase of additional machinery for the Group's yarn dyeing operation, approximately 20% as additional funds to finance the installation of the power and steam generator, and the remaining 20% as additional general working capital of the Group. In the event that the Offer Price is fixed at HK$1.13 per Offer Share, being the lowest point of the indicative Offer Price range, the net proceeds will be reduced by approximately HK$37 million. In such circumstances, the Directors intend to reduce the application of the proceeds for the installation of an additional power and steam generator, the expansion of the marketing distributions network, product development and general working capital by approximately HK$8 million, HK$8 million, HK$8 million and HK$13 million respectively.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$1.37 per Offer Share (being the mid-point of the indicative Offer Price range between HK$1.13 per Offer Share and HK$1.61 per Offer Share), the net proceeds will be increased by approximately HK$32 million (the "Additional Proceeds"). The Directors intend to apply approximately 60% of the Additional Proceeds for the purchase of additional machinery for the Group's yarn dyeing operations. Moreover, the Directors intend to apply approximately 20% of the Additional Proceeds as additional funds to finance the installation of the power and steam generator, and the remaining 20% of the Additional Proceeds as additional general working capital of the Group.

To the extent that any part of the Group's business plans cannot be materialised or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or new projects of the Group and/or to hold such funds as short-term interest-bearing deposits with banks and authorised financial institutions in Hong Kong for so long as the Directors consider it to be in the interest of the Group. In the event that there are any material changes or modifications to the use of net proceeds, the Company will make an appropriate announcement.

TRADING RECORD

The following table is a summary of the combined results of the Group for each of the three years ended 31 December 2003 and the four months ended 30 April 2004, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

		Year ended 31 December			Four months ended 30 April
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*1*	711,620	980,192	1,101,581	385,827
Cost of sales	*2*	(585,473)	(758,892)	(822,925)	(296,666)
Gross profit		126,147	221,300	278,656	89,161
Other revenue	*1*	1,708	6,477	3,193	1,481
Selling and distribution costs		(42,110)	(56,541)	(62,856)	(22,503)
Administrative expenses		(55,668)	(76,539)	(92,370)	(32,226)
Other operating income/(expenses), net		(2,200)	(2,912)	(1,132)	2,045
Profit from operating activities		27,877	91,785	125,491	37,958
Finance costs		(5,098)	(6,240)	(10,357)	(4,249)
Profit before tax		22,779	85,545	115,134	33,709
Tax		(1,768)	(3,998)	(18,778)	(5,413)
Net profit from ordinary activities attributable to shareholders		21,011	81,547	96,356	28,296
Earnings per Share					
– Basic	*3*	4.4 cents	17.0 cents	20.1 cents	5.9 cents
– Diluted		N/A	N/A	N/A	N/A

Notes:

1. An analysis of the Group's turnover and other revenue is as follows:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Sale of goods	703,405	971,340	1,090,190	383,289
Fee income from knitting and dyeing services	8,215	8,852	11,391	2,538
	711,620	980,192	1,101,581	385,827
Other revenue				
Fee income from freight handling services	680	5,937	2,027	1,000
Interest income	979	374	377	59
Others	49	166	789	422
	1,708	6,477	3,193	1,481

2. Prior to 2002, the Group has adopted a prudent fixed asset accounting policy of charging depreciation of plant and machinery using the straight-line method over their estimated useful life of three and one-third years. In 2002, in order to accurately reflect the pattern in which the Group consumes the economic benefits of plant and machinery, and to align the Group's accounting policy with the industry's practice, the Directors have reassessed the estimated useful life of the Group's plant and machinery from three and one-third years to ten years. Accordingly, the depreciation expenses charged against the cost of sales in the prospective years was reduced, leading to the relative increase in the gross profit margin in the financial year ended 31 December 2002 and afterwards. Assuming the revised policy had been effective on 1 January 2001, the depreciation expenses charged against the cost of goods sold would have been reduced by approximately HK$19.4 million for the year ended 31 December 2001.

3. The calculation of the basic earnings per Share for the Track Record Period is based on the net profit for each of the year/period under the Track Record Period and assuming 480,000,000 Shares in issue and issuable, comprising 2,000,000 Shares in issue as at the date of this prospectus and 478,000,000 Shares to be issued pursuant to the Capitalisation Issue.

4. During the Track Record Period, the Group has not declared or paid any dividends to its then shareholders.

FORECAST FOR THE YEAR ENDING 31 DECEMBER 2004 AND STATISTICS OF THE SHARE OFFER *(Note 1)*

Forecast profit after tax but before extraordinary items *(Note 2)* . . . . not less than HK$103 million

Forecast earnings per Share

(a) Weighted average *(Note 3)* . . . . HK19.7 cents

(b) Pro forma fully diluted *(Note 4)* . . . . HK16.1 cents

	Based on an Offer Price of HK$1.13 per Share	**HK$1.61 per Share**
Market capitalisation	HK$723.2 million	HK$1,030.4 million
Prospective price-to-earnings multiple *(Note 5)*		
(a) Weighted average	5.7 times	8.2 times
(b) Pro forma fully diluted	7.0 times	10.0 times
Pro forma adjusted net tangible asset value per Share *(Note 6)*	HK$0.79	HK$0.91

Notes:

(1) Except where otherwise indicated, the statistics have been prepared on the assumption that the Over-allotment Option is not exercised and takes no account of (i) any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and the exercise of the Over-allotment Option; or (ii) any Shares which may be allotted or issued or purchased by the Company under the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in appendix VI to this prospectus or otherwise.

(2) The bases and assumptions on which the forecast profit after tax but before extraordinary items for the year ending 31 December 2004 have been prepared are set out in appendix II to this prospectus.

(3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit after tax but before extraordinary items for the year ending 31 December 2004 and a weighted average number of 523,715,847 Shares in issue.

(4) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit after tax but before extraordinary items for the year ending 31 December 2004 and on the assumptions that the Company has been listed since 1 January 2004 and that a total number of 640,000,000 Shares were in issue during the year ending 31 December 2004. The forecast profit after tax but before extraordinary items for the year ending 31 December 2004 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received on 1 January 2004.

(5) The calculation of the prospective price-to-earnings multiple on a weighted average basis and on a pro forma fully diluted basis are based on the forecast earnings per Share as set out in notes (3) and (4) above.

(6) The pro forma adjusted net tangible asset value per Share has been arrived at after making the adjustments set out under the paragraph headed "Pro forma financial information" in the section headed "Financial information" in this prospectus and on the basis of a total of 640,000,000 Shares in issue and to be issued as mentioned herein.

RISK FACTORS

Risks relating to the Group

- Reliance on major customers
- Reliance on sales to major regions
- Reliance on major suppliers
- Possible disruptions in the supply of, or price fluctuations for, the Group's raw materials
- Reliance on key management
- Reliance on production facilities in the PRC
- Properties
- Taxation
- Seasonal factors
- Consolidation of financial results of Panyu KH Textile and Kam Sing
- Differences in accounting standards
- Debt-to-equity ratio

Risks relating to the industry

- Change in governmental regulations in relation to the textile industry
- Environmental regulations
- Competition

Risks relating to the PRC

- Currency conversion in the PRC and exchange rate risk
- Political and social considerations
- The PRC legal system

Please refer to the section headed "Risk factors" of this prospectus for details.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"Articles"	the articles of association adopted by the Company pursuant to the written resolutions passed by all the shareholders of the Company on 25 August 2004
"associate"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Capital Contributions Provisions"	the Capital Contributions by the Parties to the Sino-Foreign Equity Joint Ventures Several Provisions – Supplementary Provisions (《中外合資經營企業合營各方出資若干規定的補充規定》) issued by 外經貿部 (the Ministry of Foreign Trade and Economic Co-operation) and 國家工商行政管理局 (the State Administration for Industry and Commerce) on 29 September 1997
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Kam Hing International Holdings Limited (錦興國際控股有限公司), a company incorporated in the Cayman Islands on 26 November 2003 under the Companies Law with limited liability
"Director(s)"	director(s) of the Company

"EU"	European Union
"Exceed Standard"	Exceed Standard Limited, a company incorporated in the BVI on 25 September 2003 and is beneficially wholly-owned by Mr. Tai Chin Chun
"F. GATT"	Federation of General Agreement on Tariffs and Trade
"FIE"	Foreign Investment Enterprise, namely sino-foreign equity joint venture enterprise, sino-foreign cooperative joint venture enterprise, or wholly foreign owned enterprise in the PRC
"GAAP"	Generally Accepted Accounting Principles
"Group"	the Company and its subsidiaries or, where the context otherwise requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Parties"	or a person(s) or company(ies) which is/are independent of and not connected with any member of the Group, the Directors, the chief executives and the substantial shareholders (as defined in the Listing Rules) of the Company and its subsidiaries and their respective associates
"Joint Result"	Joint Result Holdings Limited, a company incorporated in the BVI on 15 October 2003 and a wholly-owned subsidiary of the Company
"Kam Sing"	廣州錦昇紡織漂染有限公司 (Guangzhou Kam Sing Textile and Dyeing Co. Ltd.), a company incorporated in the PRC on 2 January 2004 and a wholly-owned subsidiary of the Company
"KH Enterprise"	Kam Hing Enterprise Limited, formerly known as Kam Hing (Tai's) Holdings Company Limited, a company incorporated in the BVI on 28 March 2003 and a wholly-owned subsidiary of the Company

"KH Macau"	Kam Hing Textile Macao Commercial Offshore Company Limited, a company incorporated in Macau on 16 January 2004 and a wholly-owned subsidiary of the Company
"KH Piece Works"	Kam Hing Piece Works Limited, a company incorporated in Hong Kong on 21 August 1998 and a wholly-owned subsidiary of the Company
"KH Shipping"	Kam Hing International Shipping Limited, a company incorporated in Hong Kong on 13 June 2001 and a wholly-owned subsidiary of the Company
"KH Singapore"	Kam Hing Piece Works (S) Pte Ltd, a company incorporated in Singapore on 3 March 2001 and a wholly-owned subsidiary of the Company
"KH Textile"	Kam Hing Textile (International) Limited, a company incorporated in Hong Kong on 12 November 1996 and a wholly-owned subsidiary of the Company
"Latest Practicable Date"	8 September 2004, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
"Listing Committee"	the sub-committee of the board of directors of the Stock Exchange responsible for listing
"Listing Date"	the date on which the trading of the Shares on Main Board commences
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market and the options market
"MPF Ordinance"	Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong)

"Offer Price"	the Hong Kong dollar price per Offer Share (excluding the Stock Exchange trading fee, transaction levy and investor compensation levy imposed by the SFC and brokerage fee payable thereon) of not more than HK$1.61 and expected to be not less than HK$1.13 at which the Offer Shares are to be subscribed, such price to be agreed and determined between the Company and the Lead Manager (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 the Lead Manager (for itself and on behalf of the Placing Underwriters), within 30 days from the last day of lodging applications under the Pubic Offer, to require the Company to allot and issue up to an aggregate of 24,000,000 Shares at the Offer Price to cover any over-allocations in the Placing, and/or the obligation of the Lead Manager to return securities borrowed under the Securities Lending Agreement
"Over-allotment Shares"	the Shares to be issued pursuant to the exercise of the Over-allotment Option
"Panyu Factory"	the production facilities located in Panyu, Guangdong, the PRC, which are solely owned by Panyu KH Textile
"Panyu KH Textile"	番禺錦興紡織漂染有限公司 (Panyu Kam Hing Textile Dyeing Co., Limited) (previously known as Panyu Daming Dyeing Company Limited), a wholly-foreign owned enterprise established in the PRC on 26 March 1992 and a wholly-owned subsidiary of the Company
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of the Company for cash at the Offer Price with professional, institutional and individual investors as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 144,000,000 Offer Shares initially being offered for subscription under the Placing subject to re-allocation and the Over-allotment Option as described in the section headed" Structure of the Share Offer" in this prospectus

"Placing Underwriters"	Tai Fook Securities, SBI E2-Capital Securities Limited, Goldbond Securities Limited, CCB International Capital Limited, FB Gemini Securities Limited, Grand Vinco Capital Limited, Kingsway Financial Services Group Limited, Luen Fat Securities Company Limited, Pacific Foundation Securities Limited, Phillip Securities (HK) Ltd., Phoenix Capital Securities Limited and Standard Bank Asia Limited
"Power Strategy"	Power Strategy Limited, a company incorporated in the BVI on 18 August 2003 and is beneficially wholly-owned by Mr. Tai Chin Wen
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, Macau and Taiwan
"Price Determination Agreement"	the agreement to be entered into between the Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time to record and fix the Offer Price
"Price Determination Time"	the time, expected to be at or before 9:00 a.m. on 18 September 2004, on which the Offer Price is fixed for the purposes of the Share Offer and in any event not later than 12:00 noon on 18 September 2004
"Public Offer"	the offer of the Public Offer Shares by the Company for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated herein and in the related application forms
"Public Offer Shares"	the 16,000,000 Offer Shares initially offered for subscription under the Public Offer subject to reallocation as described in the section headed "Structure of the Share Offer" in this prospectus
"Public Offer Underwriters"	Tai Fook Securities, SBI E2-Capital Securities Limited, Goldbond Securities Limited, CCB International Capital Limited, FB Gemini Securities Limited, Grand Vinco Capital Limited, Kingsway Financial Services Group Limited, Luen Fat Securities Company Limited, Pacific Foundation Securities Limited, Phillip Securities (HK) Ltd., Phoenix Capital Securities Limited and Standard Bank Asia Limited

"Regulation S"	Regulation S under the US Securities Act
"Reorganisation"	the corporate reorganisation of the Group in preparation for the listing of the Shares as described under the paragraph headed "Corporate reorganisation" in appendix VI to this prospectus
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	the PRC State Administration of Foreign Exchange (中國國家外匯管理局)
"Securities Lending Agreement"	the securities lending agreement dated 13 September 2004 entered into between Exceed Standard and the Lead Manager, pursuant to which the Lead Manager may borrow up to 24,000,000 Shares from Exceed Standard to cover any over-allocation in the Placing
"SFC"	the Securities and Futures Commission in Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Share Offer"	the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 25 August 2004, its principal terms are set out under the paragraph headed "Share Option Scheme" in appendix VI to this prospectus
"State"	the government of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tai Fook Capital" or "Sponsor"	Tai Fook Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO
"Tai Fook Securities" or "Lead Manager"	Tai Fook Securities Company Limited, a licensed corporation to carry on regulated activities 1, 3 and 4 for the purpose of SFO

"Track Record Period"	the period commencing 1 January 2001 and ending 30 April 2004
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreement"	the conditional underwriting and placing agreement relating to the Share Offer dated 13 September 2004 and entered into between the Company, Exceed Standard, Power Strategy, the executive Directors, Tai Fook Capital, Tai Fook Securities and the Underwriters, particulars of which are set forth in the section headed "Underwriting" in this prospectus
"US" or "United States"	the United States of America
"WTO"	World Trade Organisation
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"kg"	kilogram
"lb"	pound
"RMB"	Renminbi, the lawful currency of the PRC
"S$"	Singaporean dollars, the lawful currency of Singapore
"sq.m."	square metres
"US$"	United States dollars, the lawful currency of the US

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:

US$1 : HK$7.8

RMB1 : HK$0.943

No representation is made that any amounts in US$, RMB or HK$ were or could have been converted at the above rate or at any other rates or at all.

For ease of reference, the names of the PRC established companies or entities have been included in this prospectus in both the Chinese and English languages.

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

"ATC"	acronym for Agreement on Textiles and Clothing, an international trading agreement concerning the imports and exports of textiles and clothing among the participating member countries/regions
"candle-dry"	a production process that takes place after grey fabric is dyed and dehydrated in which the fabric is inserted through a candle-like machine for drying
"cotton fabric"	cloth which is made from cotton yarns knitted together
"cotton yarn"	cotton thread produced from lint cotton after the spinning process and used in knitting and weaving. For the purpose of this prospectus cotton yarn includes cotton polyester blend and other blends
"counts"	a numerical designation of yarn size indicating the relationship of length to weight, i.e., the number of units of length (840 yards) per pound of cotton yarn
"ERP"	acronym for Enterprise Resource Planning. ERP systems are accounting-oriented information systems for identifying and planning the enterprise-wide resources needed to take, make, distribute, and account for customer orders
"flat-dry"	a production process that takes place after grey fabric is dyed and dehydrated in which the fabric is laid flat for drying on a flat-dry machine
"grey fabric"	an unprocessed form of cotton fabric just off the loom or knitting machine
"ISO"	acronym for a series of quality management and quality assurance standards published by the International Organisation for Standardisation, a non-governmental organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations

"polyester"	any of a group of condensation polymers used to form synthetic fibers. Fabric made from polyester is lightweight, strong and resistant to creasing, shrinking, stretching, mildew and abrasion
"rayon"	any of various textile fibers or fabrics made from viscose. Viscose fabrics have a silky to matte luster with a flowing drape. Viscose is supple and has a softness that is comfortable to wear
"spandex"	a kind of highly elastic manufactured fibre in which the fibre-forming substance is a long-chain synthetic polymer
"tumble-dry"	a production process that takes place after grey fabric is dyed and dehydrated in which the fabric is spun and rolled for drying inside a tumble-dry machine

Potential investors should carefully consider all information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Reliance on major customers

During the Track Record Period, the Group's five largest customers together accounted for approximately 64.7%, 66.4%, 65.4% and 62.6% respectively of the Group's total sales in each of the three years ended 31 December 2003 and the four months ended 30 April 2004, while the largest customer accounted for approximately 38.7%, 42.1%, 36.2% and 28.4% respectively of the Group's total sales in each of the three years ended 31 December 2003 and the four months ended 30 April 2004. Although the Group has maintained good relationships with its major customers, there is no assurance that these customers will continue to place the same levels of orders with the Group on commercially reasonable terms from time to time. If any of the Group's major customers ceases its business relationships with the Group or substantially reduces the volume of its purchases from the Group, the Group's profitability and prospects may be adversely affected.

Reliance on sales to major regions

During the Track Record Period, the Group's sales to customers in Singapore, Hong Kong and Taiwan together accounted for approximately 82.1%, 85.2%, 85.7% and 84.6% respectively of the Group's total sales in each year and the four months ended 30 April 2004. The economy and consumption power of each of these markets could fluctuate in response to a number of factors that are beyond the anticipation and control of the Group. Moreover, there is no assurance that the Group will be able to maintain its sales contracts with the customers in these regions. Should the market situation of any of these regions change and demand in these regions decrease, or should the Group fail to maintain its sales to the customers in these regions and/or develop other new markets, the financial results of the Group could be adversely affected.

Reliance on major suppliers

Raw materials used by the Group consist principally of raw cotton yarns and dyeing chemicals. During the Track Record Period, the Group's five largest suppliers together accounted for approximately 27.7%, 32.4%, 27.5% and 31.6% respectively of the Group's total purchases in each of the three years ended 31 December 2003 and the four months ended 30 April 2004, while the largest supplier accounted for approximately 15.2%, 16.0%, 6.9% and 12.8% respectively of the Group's total purchases in each of the three years ended 31 December 2003 and the four months ended 30 April 2004. The Group has not entered into any long-term supply agreements with any of its suppliers. Should any of its top five suppliers cease to supply raw materials to the Group and should the Group be unable to locate suitable replacements on a timely basis, the Group's business and profitability may be adversely affected.

Possible disruptions in the supply of, or price fluctuations for, the Group's raw materials

Cotton yarns are the principal raw materials used by the Group. Save for the rebound in yarn price in the second half of 2003, the average yarn price paid by the Group has decreased gradually since 2001 and the Group has not experienced any significant price fluctuations or disruptions in the supply of its major raw materials including cotton yarn during the Track Record Period. However, there is no assurance that such major raw materials will be supplied in an adequate quantity to meet the Group's demand or that such raw materials will not be subject to significant price fluctuations in the future, as the Group has not entered into any long term agreements with any of its suppliers. The market prices of such raw materials may experience a significant upward adjustment if, for instance, there is a material shortage in the raw materials in the market.

Reliance on key management

The Directors believe that the Group's success is, to a large extent, attributable to the expertise and experience of its key management team, which includes Mr. Tai Chin Chun and Mr. Tai Chin Wen and their well-established relationships with the Group's suppliers and customers. Each of Mr. Tai Chin Chun and Mr. Tai Chin Wen has entered into a service agreement with the Company for an initial term of three years from 1 September 2004. The Group's operation and profitability may be adversely affected if any of the members of the key management team ceases to be involved in the Group's management. In particular, the Group's suppliers and/or customers may discontinue their relationships with the Group should any of them depart from the Group.

Reliance on production facilities in the PRC

During the Track Record Period, all of the Group's products were manufactured, processed or handled by the Group's production facilities in Panyu, Guangdong, the PRC. Although the Group has not experienced any significant interruptions in these production facilities during the Track Record Period, any significant interruptions which may arise out of, for example, breakdown in the production lines or supply of electricity, steam or water, fire or other accidents or calamities, will have an adverse impact on the Group's business.

Properties

Panyu KH Textiles has not obtained the title certificates required by the relevant PRC governmental authorities in respect of the following buildings and structures which were erected on the land in Panyu where its production facilities are situated:

Zone A

There are three factory buildings (with an aggregate gross floor area of approximately 3,795 sq.m., representing approximately 5.4% of the total gross floor area of the completed properties held by the Group in Panyu, the PRC) located in this zone. These buildings, currently used by the Group for storage purposes, existed prior to the acquisition of the equity interest in Panyu Daming by KH Textile in December 1997 and have not been granted the relevant title certificates since then. Since the relevant documents (including land use planning for construction works permit, construction project and planning permit and commencement of construction works permit) cannot be located by the Group, and since it is expected that it will take a significant amount of time and effort to reissue the documents required for the application of the title certificates for these buildings, the Directors believe that the title certificates will not be granted by the relevant land and house office (國土資源及房屋管理局) in the sooner foreseeable future. As at 30 April 2004, the net book values of these three factory buildings were approximately HK$0.8 million, representing approximately 0.2% of the Group's total fixed assets value.

As advised by the Company's legal adviser as to the PRC laws, the Group is required to obtain the land use planning for construction works permit, the construction project and planning permit, and the commencement of construction works permit for any buildings under development. The Group has applied for such permits in respect of a six-storey factory building in Zone A, but the permits have not been issued yet. The estimated gross floor area of this building is approximately 5,151 sq.m. (which accounts for approximately 3.3% of the Group's total gross floor area of the completed properties held and properties under development by the Group) and this building is to be used for warehousing purposes. In addition, the total book cost of the construction incurred so far is approximately HK$2.2 million.

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures are considered illegal or unauthorized, the relevant government authorities may order rectification steps by remodeling the structures of the buildings and payment of fines, or, they may take more severe measures and order demolition or forfeiture of such buildings/structures. Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in favour of the Group in respect of such buildings/structures. For details of such indemnities, please refer to the sub-paragraph headed "Estate duty, tax and other indemnities" in the paragraph headed "Other information" in appendix VI to this prospectus.

Zone C

The Group is currently undertaking the development of two factory buildings and two dormitory buildings and it has recently set up a power and steam generating plant, a sewage treatment plant and a water treatment plant. As the construction of these buildings, with permitted gross floor area of approximately 80,731.3 sq.m., have not been fully completed, the Group has not applied for any title certificates yet. The Group has obtained the relevant construction permits for the development of these buildings (including the land use planning for construction works permit, construction project and planning permit, commencement of construction works permit), details of which have been disclosed in the property valuation report in appendix IV to this prospectus. Moreover, the Group has been granted land use rights for terms of 50 years, with expiration dates ranging from 24 April 2051 to 13 April 2053 for this zone. According to the opinion of the legal adviser to the Company as to the PRC laws, the Group should apply for the relevant title certificates for these buildings within three months upon completion of such construction work. The relevant land and house office (國土資源及房屋管理局) will then review the application and examine the relevant documents as submitted by the Group. It is expected that the construction work of these buildings will be fully completed in the third or fourth quarter of 2004 and the Group will then arrange to apply for the relevant title certificates. Based on the aforesaid information, upon the completion of the construction being examined and considered up to the standard by the relevant PRC departments (including but not limited to the fire department, city planning department and environmental department), the Directors and the legal adviser to the Company as to the PRC laws consider that there should not be any material obstacles in obtaining such title certificates.

If the abovementioned buildings are considered illegal or unauthorized structures and/or alternations, the relevant title certificates may not be granted and the PRC authorities may also order demolition and payment of fine. In such an event, the Group may have to incur additional costs and expenses, and the Group's future plan may be affected. Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in favour of the Group in respect of such buildings/structures. For details of such indemnities, please refer to the sub-paragraph headed "Estate duty, tax and other indemnities" in the paragraph headed "Other information" in appendix VI to this prospectus.

Taxation

Under the applicable PRC tax law, regulations and notices, Panyu KH Textile is subject to PRC income tax at a preferential rate of 24%. It was exempt from PRC income tax for two years starting from the first profit-making year of its operations, being the year ended 31 December 2001, and it has been enjoying a 50% deduction for the subsequent three years. If there are any adverse changes in the regulatory regime of the PRC tax legislation or if the tax provisions turn out to be inadequate to meet the actual tax liabilities, the Group's profitability may be adversely affected. There is no assurance that the preferential tax treatments will continue to apply to Panyu KH Textile in the future. Upon the expiry of the tax holiday in the year of 2005, Panyu KH Textile will be subject to PRC income tax of 24%. As such, the Group's future profitability may be adversely affected.

Seasonal factors

The Group's sales are subject to seasonal fluctuations due to the weight difference in summer and winter fabrics. Fabrics are principally priced according to their quality and processing complexity. Therefore, the peak season of the Group's products is from March to August every year, when orders for winter garments are being placed. The sales from this peak season represented approximately 70.3%, 70.0% and 61.5% respectively of the Group's turnover for the three years ended 31 December 2003. Should there be any reduction in the sales during the peak season, the Group's profitability may be adversely affected.

Consolidation of financial results of Panyu KH Textile and Kam Sing

The Directors consider capital investment in plant and machinery necessary to cope with the expected development of the Group as well as to maintain production efficiency and product quality. In recognition of this, and in preparation for future capital needs of Panyu KH Textile, in October 2003, the shareholder of Panyu KH Textile agreed to increase the registered capital of Panyu KH Textile from US$29,980,000 to US$50,000,000 and the total amount of investment in Panyu KH Textile from US$29,980,000 to US$80,000,000. The application of the increase in registered capital and the total amount of investment was approved by the Foreign Trade Bureau of Guangzhou City on 28 November 2003. On 11 December 2003, the Ministry of Commerce of the People's Republic of China acknowledged the filing of the application for record purposes. As at 31 December 2003, the paid-up capital of Panyu KH Textile was US$29,980,000. According to the articles of association of Panyu KH Textile, the Group is required to contribute 20% of the increase in registered capital and the rest within 90 days from 28 November 2003 and 12 months from 23 December 2003, being the date of grant of the revised business licence respectively. On 18 March 2004, the Group has contributed the required 20% of the increase in capital of Panyu KH Textile and as at the Latest Practicable Date, approximately US$44.2 million has been paid up. Although the Group has not contributed the first 20% of the increase in capital in the manner according to the period of time specified in the articles of association of Panyu KH Textile, each of Foreign Trade and Economic Corporation Bureau of Panyu District Guangzhou Municipal (廣州市番禺區對外貿易經濟合作局) and Panyu sub-branch of Guangzhou Municipal Commerce and Administration Bureau (廣州市工商行政管理局番禺分局) has confirmed that it will not impose any penalty on the Group. Based on the aforesaid, the Group's PRC legal adviser is of the opinion that the delay in contribution of the first 20% of the increase in registered capital would not result in the Group subject to any sanctions or penalties and affect the continuing legal existence of Panyu KH Textile.

Kam Sing was incorporated in the PRC on 2 January 2004. According to the articles of association of Kam Sing, the Group is required to contribute 15% of the registered capital and the rest within 90 days and 12 months respectively from the date of issue of the business license. As at the Latest Practicable Date, the Group has already contributed 15% of the registered capital in accordance with the period of time specified in the articles of association of Kam Sing. Given that the capital contribution arrangement complies with the articles of association of Kam Sing and the approved capital contribution schedule imposed by the authority, the Group's PRC legal adviser is of the opinion that the Group has not violated any PRC regulations in this respect.

In accordance with the Capital Contributions Provisions, the Company is not permitted to consolidate the financial results of each of Panyu KH Textile and Kam Sing into the audited consolidated accounts of the Group before its registered capital is fully paid up. However, the Group's auditors and reporting accountants have confirmed that, in accordance with the Hong Kong GAAP, the financial results of Panyu KH Textile and Kam Sing must be consolidated into the audited consolidated accounts of the Group.

The Company's PRC legal adviser has advised that although the consolidation action by the Company, being an overseas company, would be in technical breach of the Capital Contribution Provisions, it would not be in breach of the articles of association or the approval documents of Panyu KH Textile and Kam Sing. The Company's PRC legal adviser has further advised that there is no legal liability on Panyu KH Textile and Kam Sing under PRC laws as a result of the consolidation action by the Company. The continuing legal existence of Panyu KH Textile and Kam Sing and the Company's decision-making power, control of the voting rights and ownership over Panyu KH Textile and Kam Sing would not be affected. Further, the legal person status of Panyu KH Textile and Kam Sing would not be revoked as a result of the consolidation action.

Nevertheless, each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in favour of the Group for all the losses and claims which may be incurred by the Group in connection with the breach of the Capital Contribution Provisions, details of which are set out in the paragraph headed "Estate duty, tax and other indemnities" in appendix VI to this prospectus.

Differences in accounting standards

The Company is essentially an investment holding company. Substantially all of the Group's business operations are conducted through its subsidiaries in both Hong Kong and the PRC. The Group's ability to pay dividends is dependent upon the earnings of its subsidiaries and their distribution of funds to it, primarily in the form of dividends. The profit available for distribution for the subsidiaries established in the PRC is determined in accordance with the PRC GAAP, a sum which may differ from that arrived at by adopting the Hong Kong GAAP. There is no assurance that the distributable profits of the Group's PRC subsidiaries will be comparable to the reported accounting profits under the Hong Kong GAAP. Accordingly, the Company may not have sufficient distribution from its PRC subsidiaries to support the profit distribution to the shareholders.

Debt-to-equity ratio

The Group generally finances its operation with internally-generated cashflow and banking facilities provided by its banks. As at 31 December 2001, 2002, 2003 and 30 April 2004, the debt to equity ratios (defined as net debt, being loans, borrowings and finance leases less cash and cash equivalents, divided by net asset value) of the Group were approximately 232.2%, 159.6%, 78.0% and 95.2% respectively. The increase in the debt to equity ratio for the four months ended 30 April 2004 was principally due to the increase in the utilisation of the banking facilities to fund the additions of fixed assets during the period. As at 31 July 2004, the Group had total outstanding borrowings of approximately HK$370.0 million, of which approximately HK$156.4 million were classified as non-current liabilities and approximately HK$213.6 million as current liabilities. There is no guarantee that the provision of the such banking facilities will be continued, or that such funding will be made available under terms favourable to the Group. In the event that adequate funding from banks is not available or is only available at less favourable terms, and the Group is unable to obtain other financing arrangements, the Group's operation and financial position may be adversely affected.

RISKS RELATING TO THE INDUSTRY

Change in governmental regulations in relation to the textile industry

According to the ATC, the PRC may be subject to a maximum export growth of 7.5% per annum for its textile products until the end of 2008, if such a limit is imposed by other WTO members. In November 2003, the Department of Commerce of the US announced its plan to impose restrictive quotas on certain textile imports from the PRC, including knitted fabrics, dressing gowns and women's undergarments, which would limit the growth of these imports to 7.5% per annum from the level of shipments over the preceding year. This restriction has caused certain disputes between the PRC and the US. Should such disputes elevate or should other WTO members impose similar restrictive trade terms on the PRC or other countries where the manufacturing facilities of the Group's customers are located, the financial results of the Group would be adversely affected as many of the Group's customers are garment manufacturers whose products are principally sold in the US or other WTO member countries.

Environmental regulations

Under the prevailing laws and regulations in the PRC, an enterprise that discharges pollutants is required to register with the relevant environmental protection authorities regarding the enterprise's pollutants discharging facilities, pollutants treatment facilities, information on pollutants disposal and preventive measures against such pollution. For its manufacturing process, the Group has implemented a system to control its pollutant emissions to ensure compliance with the PRC environmental legislation. To the best knowledge of the Directors, the Group has not been in breach of the relevant PRC environmental protection laws or regulations during the Track Record Period. However, there is no assurance that the Group would be able to comply with the relevant new legislations should the PRC impose stricter environmental protection standards and regulations in the future. Any increase in production costs as a result of the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have an adverse effect on the business and profitability of the Group.

Competition

The Group faces competition from both Hong Kong local and PRC domestic manufacturers, in particular from those who have invested significant capital investment in plant and machinery comparable to, or even more substantial than, that of the Group. Any increase in the level of competition may dilute the Group's market share and may affect the Group's profitability if it is unable to maintain its competitiveness. If, in order to maintain competitiveness, the Group is required to reduce the selling prices of its products, its profitability may also be adversely affected as a result.

RISKS RELATING TO THE PRC

Currency conversion in the PRC and exchange rate risk

The PRC government imposes control over the convertibility of RMB into foreign currencies. Pursuant to the Foreign Exchange Control Regulation issued by the State Council on 1 April 1996 and amended by the State Council in January 1997 and the Implementing Rules regarding Issues related to the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations which came into effect on 1 July 1996 regarding foreign exchange control, conversion of RMB into foreign exchange from foreign exchange bank accounts in the PRC is based on, amongst other things, the board resolution declaring the distribution of the dividend and payment of profits. Remittance of such amounts to foreign investors from the foreign exchange bank accounts of the FIEs in the PRC or conversion of the RMB into foreign currencies at designated foreign exchange banks for the remittance of dividends and profits do not require permission from SAFE and the State Council does not impose restrictions on the category of recurring international payments and transfers. Conversion of RMB into foreign currencies for capital items, including direct investment, loans and security investment, must be approved by SAFE.

Currently, FIEs are required to apply to the SAFE for "foreign exchange registration certificates for FIEs". With such foreign exchange registration certificates (which are granted to FIEs upon fulfilling certain prescribed conditions and are reviewed annually before the last day of April each year by the SAFE) and other relevant documents required by the SAFE, FIEs may enter into foreign exchange transactions at banks authorised to conduct foreign exchange business to obtain foreign exchange for their financial needs.

Although the Company's financial records are denominated in HK$ and US$, a portion of the Group's cost are incurred in RMB. Accordingly, the profitability of the Group and the value of its assets could be adversely affected by fluctuations in the exchange rate of the RMB against US$ and HK$. In addition, there is no assurance that the exchange rates of RMB will not be subject to fluctuations due to administrative or legislative intervention by the PRC government or adverse market movements, or that shortages in the availability of foreign currency will not occur.

Political and social considerations

Since 1979, the PRC government has been undergoing a series of reforms, with emphasis on its political systems. Such reforms have resulted in significant economic growth and social progress and many of the reforms are expected to be refined and improved. Other political and social factors may also lead to further readjustment and refinement of the reform measures. The Group's operations and performance in the PRC may be adversely affected by changes in the legal, political, economic and social conditions of the PRC. These may take the form of changes in laws and regulations or their interpretation, taxation policies, foreign exchange controls or the expropriation of private- or foreign-owned property interests. Although the PRC government has been pursuing economic reform policies for more than 20 years, there is no assurance that such reform measures introduced by the PRC government will have a favourable effect on the operations of the Group.

The PRC legal system

Since 1979, many laws and regulations dealing with economic matters in general and foreign investments have been promulgated in the PRC. The enforcement of the existing laws may be uncertain and their implementation and interpretation may be inconsistent. As the PRC legal system develops, the promulgation of new laws, the changes in existing laws and the pre-emption of local regulations by national laws could have a material adverse effect upon the business and prospects of the Group.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Law, the Companies Ordinance, the SFO, the Securities and Futures (Stock Exchange Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;

2. there are no other matters the omission of which would make any statement in this prospectus misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Share Offer is made solely on the basis of the information contained and the representations made in this prospectus and the related application forms. 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 the related application forms, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or party involved in the Share Offer.

UNDERWRITING

This prospectus is published in connection with the Share Offer, which is sponsored by Tai Fook Capital and managed by the Lead Manager and fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Lead Manager (on behalf of the Underwriters) and the Company at or before 9:00 a.m. (Hong Kong time) on 18 September 2004, or such later time or date as may be agreed between the Lead Manager (on behalf of the Underwriters) and the Company but in any event no later than 12:00 noon (Hong Kong time) on 18 September 2004.

If the Lead Manager (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by 9:00 a.m. (Hong Kong time) on 18 September 2004, or such later time as may be agreed between the Lead Manager (on behalf of the Underwriters) and the Company but in any event not later than 12:00 noon (Hong Kong time) on 18 September 2004, the Share Offer will not become unconditional and will lapse.

RESTRICTIONS ON SALE OF THE OFFER 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.

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 in accordance with other applicable exemptions from the registration requirements of the U.S. Securities Act, or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S, as applicable. 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.

The Offer Shares have not been approved or disapproved by the U.S. 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 Shares 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 or reoffered or resold 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 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 being distributed only to and is directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) 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 Articles 49(2) 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 Offer Shares 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. This prospectus should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

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 material 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 the conditions of any other provision of the SFA.

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, 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 for the listing of, and permission to deal in, the Shares in issue, Shares to be issued to the Company's existing shareholders pursuant to the Capitalisation Issue, Shares to be issued pursuant to the Share Offer, and any Shares to be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme, on the Main Board.

No part of the share or loan capital of the Company is listed or dealt in on the Main Board or on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on the Main Board or any other stock exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares to be issued upon exercise of the Over-allotment Option and the Share Option Scheme will be registered on the Company's branch register of members to be maintained by Tricor Investor Services Limited in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

The Company, the Directors, the Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date 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. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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 Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence on Thursday, 23 September 2004. Shares will be traded in board lots of 2,000 Shares each.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Tai Chin Chun *(Chairman)*	Flats A and B, 21/F, Tower 9 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong	Chinese
Mr. Tai Chin Wen *(Vice-Chairman)*	Flat A, 11/F, Tower 10 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong	Chinese
Madam Cheung So Wan	Flats A and B, 21/F, Tower 9 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong	Chinese
Madam Wong Siu Yuk	Flat A, 11/F, Tower 10 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong	Chinese

Independent non-executive Directors

Mr. Chong Chau Lam	Flat H, 11/F, Block 5 Whampoa Garden, Site 4 7 Shung King Street Hunghom Kowloon Hong Kong	British
Madam Chu Hak Ha, Mimi	Flat A, 23/F, Block 2 University Heights 101 Pokfield Road Hong Kong	Chinese
Mr. Chan Yuk Tong	1A, Block 2 King's Park Villa Ho Man Tin Kowloon Hong Kong	British

PARTIES INVOLVED

Sponsor	Tai Fook Capital Limited 25/F, New World Tower 16-18 Queen's Road Central Hong Kong
Lead Manager	Tai Fook Securities Company Limited 25/F, New World Tower 16-18 Queen's Road Central Hong Kong
Placing Underwriters	Tai Fook Securities Company Limited 25/F, New World Tower 16-18 Queen's Road Central Hong Kong
	SBI E2-Capital Securities Limited 43/F, Jardine House One Connaught Place Central Hong Kong
	Goldbond Securities Limited 39/F, Tower 1, Lippo Centre 89 Queensway Hong Kong
	CCB International Capital Limited 5/F., Tower One, Lippo Centre 89 Queensway Admiralty Hong Kong
	FB Gemini Securities Limited 1503 Cheung Kong Center 2 Queen's Road Central Hong Kong
	Grand Vinco Capital Limited Room 902, 9/F., Far East Finance Centre 16 Harcourt Road Hong Kong
	Kingsway Financial Services Group Limited 5/F, Hutchison House 10 Harcourt Road Central Hong Kong

Luen Fat Securities Company Limited
23/F., Euro Trade Centre
21-23 Des Voeux Road Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Phillip Securities (HK) Ltd.
11/F, United Centre
95 Queensway
Hong Kong

Phoenix Capital Securities Limited
Room 3203-04, 32/F.
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Standard Bank Asia Limited
36/F, Two Pacific Place
88 Queensway
Hong Kong

Public Offer Underwriters

Tai Fook Securities Company Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

SBI E2-Capital Securities Limited
43/F, Jardine House
One Connaught Place
Central
Hong Kong

Goldbond Securities Limited
39/F, Tower 1, Lippo Centre
89 Queensway
Hong Kong

CCB International Capital Limited
5/F., Tower One, Lippo Centre
89 Queensway
Admiralty
Hong Kong

FB Gemini Securities Limited
1503 Cheung Kong Center
2 Queen's Road Central
Hong Kong

Grand Vinco Capital Limited
Room 902, 9/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

Kingsway Financial Services Group Limited
5/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

Luen Fat Securities Company Limited
23/F., Euro Trade Centre
21-23 Des Voeux Road Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Phillip Securities (HK) Ltd.
11/F, United Centre
95 Queensway
Hong Kong

Phoenix Capital Securities Limited
Room 3203-04, 32/F.
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Standard Bank Asia Limited
36/F, Two Pacific Place
88 Queensway
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Sidley Austin Brown & Wood
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

	As to Cayman Islands law: Conyers Dill & Pearman, Cayman Century Yard Cricket Square Hutchins Drive George Town Grand Cayman British West Indies
	As to PRC law: GFE Law Office 18/F, Guangdong Holdings Tower No. 555 Dongfeng East Road Guangzhou PRC
	As to Singapore law: Ang & Partners 150 Beach Road #32-00 The Gateway West Singapore
Legal adviser to the Sponsor and Underwriters	Deacons 3rd-7th, 18th and 29th Floors Alexandra House 16-20 Chater Road Central Hong Kong
Auditors and reporting accountants	Ernst & Young *Certified Public Accountants* 15/F, Hutchison House 10 Harcourt Road Central Hong Kong
Property valuer	Sallmanns (Far East) Limited 22/F, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Receiving banker	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business	Units 5-9, 8/F Lucida Industrial Building 43-47 Wang Lung Street Tsuen Wan New Territories Hong Kong
Company secretary	Wong Wai Kong, Elmen, *CPA*
Qualified accountant	Wong Wai Kong, Elmen, *CPA*
Members of audit committee	Chong Chau Lam Chu Hak Ha, Mimi Chan Yuk Tong *(Chairman)*
Authorised representatives	Tai Chin Chun Flats A and B, 21/F, Tower 9 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong Tai Chin Wen Flat A, 11/F, Tower 10 Parc Royale 8 Hin Tai Street Shatin New Territories Hong Kong Wong Wai Kong, Elmen House 51, Second Street, Section I Fairview Park Yuen Long New Territories Hong Kong

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
289 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
Shop 16, G/F & Lower G/F
New World Tower
Central
Hong Kong

The Bank of East Asia Limited
241 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

Wing Hang Bank Limited
345 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

The Bank of China – Panyu Sub-branch
338 Qing He East Road
Shi Qiao, Panyu
Guangzhou
PRC

The Construction Bank – Panyu Sub-branch
41 Fang Hua Road
Shi Qiao, Panyu
Guangzhou
PRC

Principal share registrar and transfer office in Cayman Islands	Bank of Bermuda (Cayman) Limited PO Box 513 GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands British West Indies
Branch share registrar and transfer office in Hong Kong	Tricor Investor Services Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong

The information provided in this section is derived from various publications. This information has not been independently verified by the Company, the Sponsor, the Underwriters, or their respective advisers. Reasonable care has been taken by the Directors in the exercise of extracting and repeating such information. The information may not be consistent with each other or with other information compiled for the industry.

THE WORLD TEXTILE INDUSTRY

The textile industry comprises businesses involved in yarn spinning and fabric weaving, knitting, dyeing and finishing. In recent years, most textile manufacturers have made heavy investments in modern machinery and have achieved improved productivity through such capital expenditure.

Development trends of the global textile industry

The change in global economic structure has provided opportunities for developing countries to develop labour-intensive industries. Since World War II, there have been major changes in the location of the global textile production centre. In the 1960s, the focal point for textile production moved from the US, Japan and Western Europe to emerging countries in Asia. The second move occurred in the 1980s, when this labour-intensive industry moved to less developed regions like the PRC, Southern Asia and Latin America.

As the textile industry is a labour-intensive industry, the PRC has comparative cost advantages in terms of lower labour costs in manufacturing textile products. Therefore, since the opening-up of the PRC economy, the centre of textile production has gradually shifted to the PRC in order for the textile industry to take advantage of the relatively cheap labour cost. Currently, the PRC is the world's largest textile manufacturing country. As referred to in the China Textile Industry Development Report and F. GATT and WTO Annual Report, in 1980, the textile export of the PRC amounted to approximately US$2.6 billion with approximately 4.6% market share in the world. In 2002, this amount had increased to approximately US$20.6 billion with a market share of 13.5%.

The PRC's share of textile exports

Year	World	PRC	Market Share
	US$bln	*US$bln*	*%*
1980	55.6	2.6	4.6%
1985	56.4	3.7	6.6%
1990	104.3	7.2	6.9%
1995	151.6	13.9	9.2%
2000	154.2	16.1	10.5%
2001	147.0	16.8	11.4%
2002	152.2	20.6	13.5%

Source: China Textile Industry Development Report 2002-3 and F. GATT and WTO Annual Report

THE TEXTILE INDUSTRY IN HONG KONG

The Hong Kong textile industry has a good reputation for quality dyed and printed fabrics with complex designs and textures. Faced with keen competition in the global market, Hong Kong's textile industry is now moving up-market to supply higher quality and more sophisticated textile products. The Hong Kong textile industry has invested heavily in capital-intensive and advanced machinery to keep up with the latest technology know-how. Improvements are continuously being sought in a number of areas, including shortening response time, reducing costs, minimizing stockholding for customers and adding value to products. As a result, Hong Kong textile manufacturers have been able to remain competitive in the global market.

According to the Census and Statistics Department of Hong Kong, the textile industry had a total of approximately 1,573 manufacturing establishments at the end of 2003, employing approximately 23,806 workers or 12.8% of the local manufacturing workforce. In 2002, the industry had a gross output of approximately HK$22.5 billion with value-added at approximately HK$5.9 billion.

The textile industry is also one of the Hong Kong's major export earners. According to the statistics issued by the Hong Kong Trade Development Council, Hong Kong's total exports of textiles for 2002 amounted to approximately HK$97 billion. The performance of the textile industry in 2001 and 2002 was affected by the sluggishness of global retailing. Cautious consumption led to substantial markdowns by major apparel retailers, which in turn reduced supplies from textile manufacturers. However, textile exports showed significant rebound in the first half of 2003. Total exports of textiles increased by approximately HK$50 billion, represented a year-on-year growth rate of 8% despite the outbreak of the Severe Acute Respiratory Syndrome during that period. Moreover, Hong Kong's exports of knitted fabrics have also experienced strong growth since 2000. Its share of total exports had been increasing from 17.6% in 2000 to 20.0% in the first half of 2003.

Performance of Hong Kong's total exports of textiles

	2000		2001		2002		2003 (Jan-Jun)	
By category	Share	Growth	Share	Growth	Share	Growth	Share	Growth
	%	%	%	%	%	%	%	%
Knitted fabrics	17.6%	22%	17.7%	–9%	19.2%	10%	20.0%	16%
Textile yarns	22.5%	17%	25.4%	3%	25.5%	2%	27.1%	8%
Woven fabrics	44.4%	3%	42.1%	–14%	41.2%	–1%	38.8%	5%
Special yarns and fabrics	6.7%	5%	6.3%	–15%	6.0%	–3%	6.1%	4%
Finishing accessories	4.2%	20%	4.1%	–12%	4.4%	9%	4.7%	21%
Textile made-up	4.2%	8%	4.1%	–12%	3.5%	–13%	3.1%	–6%
Floor coverings	0.3%	–2%	0.4%	2%	0.3%	–6%	0.3%	–13%

Source: Hong Kong Trade Development Council 2003

Development of the PRC as a manufacturing base

In recent years, with rising production costs and increasingly stringent environmental regulations in Hong Kong, an increasing number of manufacturers have shifted their production to the PRC in order to benefit from comparative cost advantages. Quota elimination on imports of China-origin textiles pursuant to ATC liberalisation has further encouraged Hong Kong manufacturers to shift more of their production to the PRC.

TEXTILE INDUSTRY IN THE PRC

The PRC accounted for approximately 13.5% of the global exports of textile products for the year 2002. In addition to textile manufacturing, the PRC also processes approximately one-fourth of the world's fibre production. Production of major textile products for the year of 2002 is summarised in the following table:

	Volume	Growth
		%
Fabrics *(billion metres)*	22.7	11.2%
Yarn *(million tons)*	8.0	15.8%
Chemical fibres *(million tons)*	9.9	20.1%
Garment *(billion pieces)*	8.8	8.5%

Source: China Textile Industry Development Report 2002-3

Textile manufacturing has become one of the major businesses in the PRC. According to China Statistics Yearbook 2003, there were approximately 13,248 industrial enterprises with sales revenue above RMB5 million in textile manufacturing, employing approximately 2.8 million workers in 2002. Gross industry output of the textile industry in the PRC totalled approximately RMB637 billion, accounting for approximately 5.8% of the total gross industry output for the year of 2002.

TEXTILE EXPORT IN THE PRC

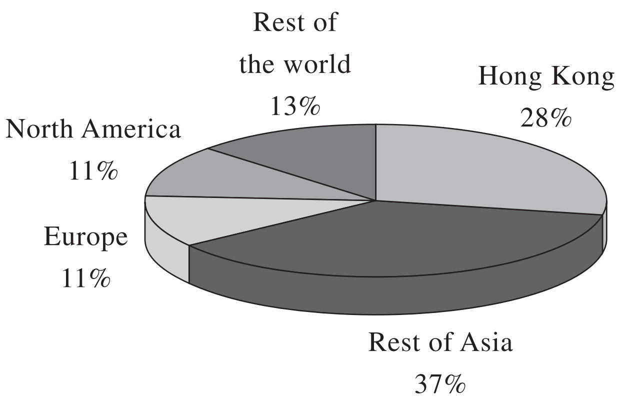
The PRC's total exports of textile products amounted to approximately US$20.6 billion in 2002, representing an average growth rate of approximately 12.5% from 1998. Despite a weakening demand from overseas, such exports continued to grow by approximately 22.9% in 2002, the first year after the PRC's entry into the WTO. Export of textiles accounted for approximately 6.3% of all export of merchandise. The table below summarises the PRC export figures for textile products from 1998 to 2002.

	1998	**1999**	**2000**	**2001**	**2002**	**CAGR**
	US$bln	*US$bln*	*US$bln*	*US$bln*	*US$bln*	*%*
Textile products	12.8	13.0	16.1	16.8	20.6	12.5

Source: Statistics of the Customs Department of the PRC and China Statistical Yearbook 2003

Hong Kong was the single largest region for the exports of textiles from the PRC, as many textile products were then re-exported via Hong Kong to other countries for further processing. The US and the EU are two other major markets for the exports of textiles. For 2002, direct exports to the US and the EU increased by over 19.7% and 42.2% respectively when compared to that of 2001. Evidently, the PRC's global market share for textile products has expanded since China's entry into the WTO.

PRC textile exports by major markets



Source: Statistics of the Customs General Administration of the PRC 2002-3

EXTERNAL INFLUENCES AFFECTING THE TEXTILE INDUSTRY

Impact of the PRC's entry into the WTO

The PRC's accession to the WTO in December 2001 has resulted in many opportunities for textile industries in Hong Kong and the PRC. The decision to completely phase-out world-wide quotas on PRC-origin imports under the ATC by 2005 has encouraged Hong Kong manufacturers to continue shifting their operations to the PRC to enhance their cost competitiveness. This is expected to boost textile production volume in the PRC as well as exports of PRC-made fabrics and clothing. Meanwhile, it is also expected that more global garment manufacturers will set up their production centers in the PRC to take advantage of the low labour cost, which will increase the sourcing of fabrics in the PRC.

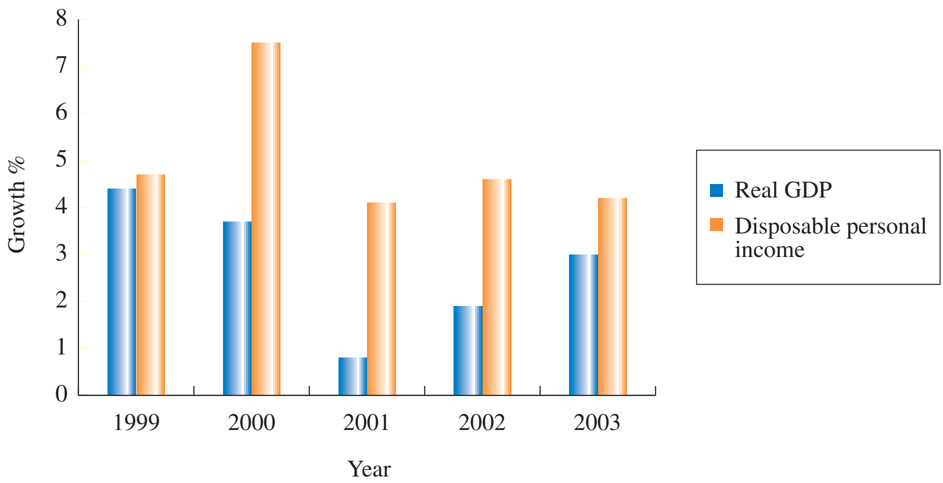
The third stage of the liberalisation process on textiles and clothing quotas began on 1 January 2002, raising the total level of liberalised products to at least 51% by volume. Most of the quotas on yarn and fabrics were also removed at the beginning of 2002. Because of China's accession to the WTO, PRC-made textile and clothing products are entitled to all of the first three stages of ATC integration.

According to the ATC, the PRC may be subject to a maximum export growth of 7.5% per annum for its textile products until the end of 2008, if such a limit is imposed by other WTO members. In November 2003, the Department of Commerce of the US announced its plan to impose restrictive quotas on certain textile imports from the PRC, including knitted fabrics, dressing gowns and brassieres, which would limit the volume growth of these imports to 7.5% per annum. These three categories, which amount to only a small percentage of the PRC's total textile exports, should not have serious impact on the PRC's textile industry. In addition, most of the knitted fabrics are sent to countries with low labour cost for further processing before being delivered to the US. Therefore, the Directors consider this restriction to be insignificant to the profitability prospect of the Group.

US Market

The US is the world's largest garment importing country. It imported approximately US$66.7 billion worth of garments in 2002, accounting for approximately 31.7% of the world's total garments imports. The following chart depicts the growth of real Gross Domestic Product (GDP) and disposable personal income in the US for the period between 1999 and 2003:

US growth of real GDP and disposable personal income

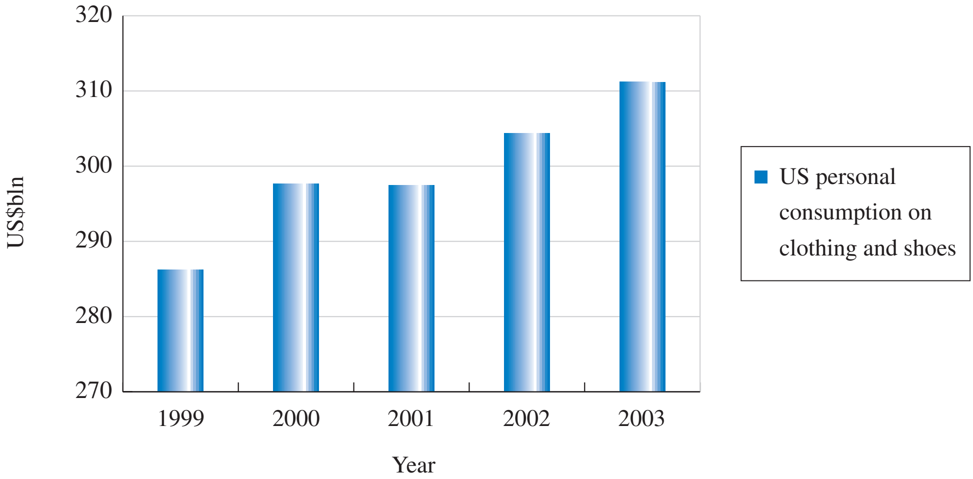


Source: US Bureau of Economic Analysis, 2004

The US economy is mainly driven by domestic consumption. Between 1999 and 2003, approximately 70% of GDP growth in the US can be attributed to personal consumption. In this period, the disposable personal income rose from US$6,396 billion to US$8,160 billion, while personal savings stayed nearly flat. The increase in disposable personal income has led to a surge in personal consumption, including clothing.

This is best illustrated by the increase in personal expenditure on clothing and shoes over the period. Personal expenditure on clothing and shoes figure has grown from US$286 billion to US$311 billion from 1999 to 2003, representing a CAGR of approximately 2.1%.

US personal consumption on clothing and shoes



Source: US Bureau of Economic Analysis, 2004

The increase in personal expenditure on clothing and shoes in the US has in turn benefited the PRC's exports of textile products, which has shown a 60.8% rise from 1998 to 2002 or a CAGR of approximately 12.6%.

REGULATIONS GOVERNING THE POWER PLANTS IN THE PRC

Large scale textile manufacturers require an abundant supply of both electricity and steam. Some manufacturers may set up their own power and steam generators in order to ensure a continuous supply of electricity and steam and to minimize production costs. The establishment of a power plant and its subsequent generation of electricity and steam within the territory of the PRC are mainly regulated under the "Electricity Law of the People's Republic of China" (電力法) promulgated by the Standing Committee of the National People's Congress of the PRC on 28 December 1995. The Electricity Law of the People's Republic of China (電力法) prohibits the use of obsolescent electric equipment and technique in the establishment and operation of power plants.

Pursuant to the Electricity Law of the People's Republic of China (電力法), if the power generated from a duly established power plant is solely for the proprietor's own use and is not connected into the public power supply network, the proprietor is allowed to use the plant in its own way. In addition, if a power plant uses fixed high-pressure generators, it will be subject to the "Management Measures on Registration of Use of Generators and Pressure Containers" (鍋爐壓力容器使用登記管理辦法) and the "Guangdong Provincial Measures on Safety Management of Generators and Pressure Containers" (廣東省鍋爐壓力容器安全管理規定), pursuant to which a power plant is required to obtain a "Special Equipment Registration Certificate" (特種設備使用登記證) and is subject to periodic inspections, upon successful completion of which a "Periodic Inspection Certificate" (定期檢驗合格証) would be granted. Further, since power generators create pollutants, its design, construction and operation are subject to relevant environment protection laws and regulations.

BUSINESS

The Group is principally engaged in the manufacture and sale of finished knitted fabrics. During the Track Record Period, the Group's merchandise was sold to various garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell garment products to the consumers in the US and other countries. Many of the Group's products have been made into garments bearing international brands carried by companies such as Gap Inc., Target Corp., May Department Stores, Eddie Bauer Inc., Associated Merchandising Corp. and Sears. Apart from knitting and dyeing fabrics for its own sale, the Group has occasionally provided knitting and dyeing services for other fabric manufacturers which accounted for approximately 1% of the Group's total turnover for each of the three years ended 31 December 2003 and the four months ended 30 April 2004.

The Group was established in November 1996 when KH Textile was incorporated in Hong Kong. Since then, through years of operation, the Group has established itself as one of the leading yarn knitting and fabric dyeing manufacturers in Hong Kong. For the year ended 31 December 2003, the Group recorded a turnover of approximately HK$1,101.6 million and a net profit attributable to shareholders of approximately HK$96.4 million. For the four months ended 30 April 2004, the Group recorded a turnover of approximately HK$385.8 million and a net profit attributable to shareholders of approximately HK$28.3 million. During the Track Record Period, the Group's sales to customers in Singapore, Hong Kong and Taiwan together accounted for approximately 82.1%, 85.2%, 85.7% and 84.6% respectively of the Group's total sales in each of the three years ended 31 December 2003 and the four months ended 30 April 2004.

The Group's production facilities are located in Panyu, Guangdong, the PRC. As at the Latest Practicable Date, the annual knitting and dyeing capacities of the Group were approximately 74.4 million pounds and 101.5 million pounds respectively. The Group's executive headquarters is based in Hong Kong and is responsible for the management, sales and marketing, administration and finance, and purchasing functions of the Group.

Equipped with vertically integrated production facilities, the Group is able to handle a wide range of fabric production procedures including fabric knitting, dyeing, setting and finishing. The Group is therefore capable of producing a variety of finished knitted fabrics to meet its customers' different specifications and requirements. Different fabric products are derived from the combination of various cotton counts and knitting methods. These products are available in a wide range of colours and also in specially-designed patterns. During the Track Record Period, the Group manufactured a wide variety of knitted fabrics that can be broadly classified into three categories, namely the basic series, functional series and novelty series. Each series respectively accounted for approximately 59.2%, 27.9% and 12.9% of the total turnover of knitted fabrics recorded by the Group for the four months ended 30 April 2004.

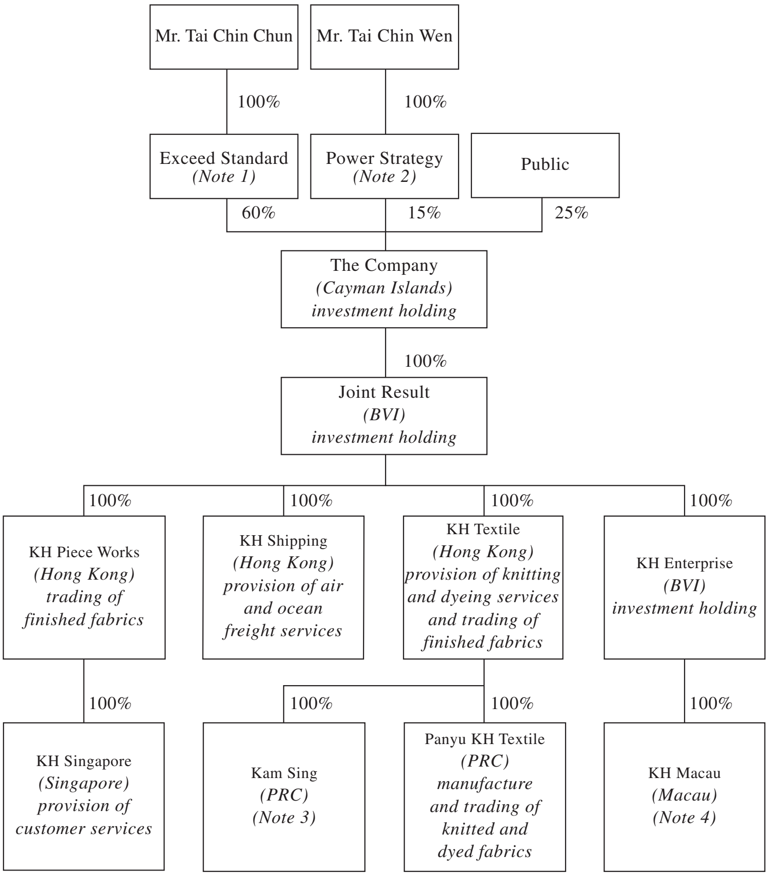
Based on the Group's scale of operation and financial performance as compared to other leading fabric manufacturers listed on the Stock Exchange, the Directors consider the Group to be one of the leading manufacturers of quality fabrics in Hong Kong. The Directors believe that the Group is capable of carrying on its business independently and its success is attributable to the following principal factors:

- the Group's economies of scale and well-organised production facilities in Panyu, the PRC;
- well-established relationships with garment manufacturers and certain international fashion apparel brand operators;
- the Group's commitment to maintaining and improving its product quality and its ability to provide a variety of products;
- extensive experience and expertise of the Group's management team in the textile industry;
- fine and skilful workmanship; and
- well-established relationships with suppliers of raw materials.

With the expected increase in demand of consumer goods in the US, as well as the considerable development growth potential in the PRC textile market, the Directors believe that the Group is well positioned to capture the world's fabric market and to further develop new market opportunities leveraging on its scalable production base, high product quality and wide-ranging product categories.

GROUP AND SHAREHOLDING STRUCTURE

The Company was incorporated in the Cayman Islands on 26 November 2003. Immediately prior to the Share Offer, the Company is ultimately owned by Mr. Tai Chin Chun as to 80% and Mr. Tai Chin Wen as to 20%. The following chart illustrates the shareholding and corporate structure of the Group immediately upon completion of the Share Offer (but without taking into account the Shares to be allotted upon the exercise of the Over-allotment Options and any options which may be granted under the Share Option Scheme or any allotment and issue and/or repurchase of Shares by the Company under the general mandates as referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in appendix VI to this prospectus):



Notes:

1. Exceed Standard is a company incorporated in the BVI and its entire issued share capital is legally and beneficially owned by Mr. Tai Chin Chun.

2. Power Strategy is a company incorporated in the BVI and its entire issued share capital is legally and beneficially owned by Mr. Tai Chin Wen.

3. Kam Sing was incorporated on 2 January 2004. Its authorised scope of principal activity is the manufacture of knitted and dyed fabrics for domestic PRC sales.

4. KH Macau was incorporated on 16 January 2004. It is established to engage in the provision of knitting and dyeing services and trading of finished fabrics.

HISTORY AND DEVELOPMENT

The Group was established in November 1996 when KH Textile was incorporated in Hong Kong. Prior to the Reorganisation, KH Textile was owned legally and beneficially by Mr. Tai Chin Chun as to 80% and Mr. Tai Chin Wen as to 20%. In December 1997, KH Textile entered into an agreement with an Independent Third Party, Engloton Bleaching & Dyeing Works Ltd., to acquire its entire equity interest in Panyu Daming Dyeing Company Limited (番禺達明印染有限公司) ("Panyu Daming") at a consideration of approximately RMB17.5 million. The consideration was negotiated at an arm's length basis with reference to the then net book value of Panyu Daming. Panyu Daming was a sino-foreign cooperative joint venture incorporated in the PRC on 26 March 1992 by the aforesaid foreign investor and the PRC partner, Panyu Dongchong Economic Development Company (番禺縣東涌鎮經濟發展總公司) ("Panyu Development") which, save for its interests in Panyu Daming, was an Independent Third Party. Following such an acquisition by KH Textile, Panyu Development remained as the PRC joint venture partner principally responsible for liaison with the local government in complying with administrative measures, but it did not have any equity interest in the joint venture. The then principal activities of Panyu Daming, through the operation of the Panyu Factory, were the dyeing and processing of fabrics. In February 1998, as approved by the Foreign Trade Bureau of Panyu City (番禺市對外經濟貿易局), Panyu Daming was renamed Panyu KH Textile.

In August 1998, KH Piece Works was incorporated to mainly serve as the Group's sales and marketing centre for its finished fabrics.

In order to further integrate the Group's business vertically, the Panyu Factory commenced knitting of fabrics in 1998. Since then, additional dyeing tanks and knitting machines have been purchased from time to time to cope with the Group's business development.

The quality of knitted fabrics is very important to garment manufacturers. Any flaws in the knitted fabrics may disrupt the production process. The Group has therefore been dedicated to maintaining quality by implementing various quality control procedures. As a result of its commitment to quality control, the Group has been awarded the ISO9001:2000 certification on knitting, dyeing and finishing of fabrics since November 1999.

With a view to better manage the delivery schedule, the Group established KH Shipping in June 2001 for the provision of freight and shipping handling services. A number of the Group's customers are based, or have set up representative offices, in Singapore. In view of the significance of the Singapore market to the Group, the Group decided to establish the marketing presence there in order to strengthen the Group's relationship with its Singaporean customers. At the request of Mr. Tai Chin Chun and Mr. Tai Chin Wen, Mr. Ho Yi Piu, the son-in-law of their brother, incorporated KH Singapore in March 2001 for the purpose of acting as a marketing and customer service arm of the Group in Singapore. KH Singapore was owned as to 98% and 2% by Mr. Ho Yi Piu and Ms. Julie Ade Umbara respectively. Ms. Julie Ade Umbara is an associate of Mr. Ho Yi Piu. Since its incorporation, KH Singapore's operation has been funded by the Group through the payment of a management fee. In March 2003, the Directors considered it appropriate to include KH Singapore formally in the Group. Therefore, Mr. Tai Chin Chun and Mr. Tai Chin Wen, through Kam Hing (Tai's) Group Limited (a company incorporated in Hong Kong and owned as to 80% by Mr. Tai Chin Chun and 20% by Mr. Tai Chin Wen) acquired KH Singapore from Mr. Ho Yi Piu and Ms. Julie Ade Umbara at a consideration of S$50,000 (approximately HK$230,000) with reference to the issued share capital of KH Singapore.

In June 2003, as approved by the Foreign Trade Bureau of Panyu District, Guangzhou City (廣州市番禺區對外貿易經濟合作局), Panyu KH Textile was converted into a wholly-foreign owned enterprise of KH Textile. Accordingly, Panyu Development ceased to have any relationship with the Group.

Having accumulated years of experience in the textile industry, the Group has evolved into an integrated knitted fabrics manufacturer that focuses on serving customers in Singapore, Hong Kong and Taiwan. Set out below is a summary of the annual production capacity of the Group during the Track Record Period:

	As at 31 December			**As at 30 April**
	2001	**2002**	**2003**	**2004**
	(million pounds)			
Annual knitting capacity	12.8	33.1	56.7	74.4
Annual dyeing capacity	37.1	71.6	84.2	101.5

In January 2004, with a view to capturing the PRC domestic brandname apparel fabric supply market, Kam Sing was established to exploit such development potential.

During the course of its expansion, the Group has also recognised the significance of power, steam and water supply. Since its establishment in 1997, the Group has been relying on the supply of electricity and water from the local public utilities suppliers and generating steam by itself from small-scale steam generators. However, to cope with increased demand for electricity and steam as a result of increased production and with an aim to lower production cost, the Group has invested approximately HK$48.0 million for the installation of its own 7,000 KW power and steam generator. In addition, the Group has invested approximately HK$29.0 million in the establishment of its own water supply and sewage treatment station, which, together with the power and steam generator, are still under testing.

The Company was incorporated in the Cayman Islands on 26 November 2003 and became the ultimate holding company of the Group as a result of the Reorganisation. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in appendix VI to this prospectus.

PRODUCTS

Knitted fabrics are produced by looping the yarns around each other. The Group's products are mainly classified into three categories:

Basic series	Basic fabrics such as plain knit and interlock fabrics are generally used to manufacture casual wear, for example, shirts, T-shirts and other sportswear. Rib knits are used in lightweight sweaters to provide close, body-hugging fit.
Functional series	Fabrics with pile created during processing can reduce the density of the fabric so that air can be trapped inside to act as an insulation layer. Special finishes and treatments can be applied to produce water repellent, waterproof, wrinkle-free, oil and dirt-resistant and well-ventilated fabrics.
Novelty series	Fabrics such as terry velour have uncut pile on the surface and are valued for their soft, luxurious feel. Addition of other fibres such as spandex and rayon can enhance elasticity of the fabrics. Also, coloured yarns can be knitted into fabrics with stripes or other special patterns.

Fabrics can be knitted with either dyed yarns or raw yarns. The Group uses dyed yarns to knit multi-colour fabrics with stripes or other patterns, while most of the Group's fabrics are knitted from raw yarns for subsequent dyeing into single colours. During the Track Record Period, the Group purchased raw yarns from independent suppliers and outsourced the yarn dyeing production process to other manufacturers.

To ensure consistency in quality of the finished products, systematic quality control procedures and customised manufacturing processes are used throughout the production cycle. Quality control procedures are also implemented in sourcing yarns.

The Group is also able to process a wide variety of products. Different products are derived from the combination of various cotton counts and knitting methods, and a wide range of colours are available for these products. The Directors are of the view that it is important for the Group to launch new products to the market in a timely manner. Accordingly, the Group has put emphasis on the research and development of new products. Details on research and development are set out in the paragraph headed "Research and development" in this section of this prospectus. New samples with different features, such as different textures, elasticities and weights are often presented to existing and potential customers.

The following table sets out the breakdown of the Group's production and sales volume of fabrics by categories of products for each of the three years ended 31 December 2003 and the four months ended 30 April 2004:

	Year ended 31 December						Four months ended 30 April	
	2001		2002		2003		2004	
	Production volume	Sales volume	Production volume	Sales volume	Production volume	Sales volume	Production volume	Sales volume
					(million lbs)			
Basic series	17.8	20.2	30.2	30.1	38.2	38.5	12.7	12.3
Functional series	10.3	11.6	17.5	17.5	17.7	17.8	6.1	6.0
Novelty series	3.1	3.5	3.7	3.7	5.9	5.9	2.2	2.2
	31.2	35.3	51.4	51.3	61.8	62.2	21.0	20.5

There have not been any material defects or errors in respect of the Group's products that have led to any material loss to the Group or induced any litigation from its customers during the Track Record Period.

PRODUCTION PROCESS

The Group's production process mainly comprises knitting, dyeing and finishing. Much of the Group's production equipment is computerised and some of the machinery was imported from such countries as Italy, Germany, Switzerland and Singapore. Each step of the production process is also supported and closely monitored by quality control staff assigned to specific steps to optimise efficiency and ensure product quality. The normal time required for a complete production cycle from order to delivery is approximately 25 days. The actual time spent is dependent on the complexity and urgency of the orders. The following chart illustrates the typical steps of the principal production process:

Ordering

Product samples are often sent to existing and potential customers to solicit sales. Some samples are produced at customers' requests while others are new products developed by the Group's research and development team. If the customers are interested in placing an order after evaluation of these samples, they request a quotation. An order is placed with the Group after finalisation of the terms.

Raw material inspection

Samples of raw materials including yarns and dyes are checked by quality control staff against benchmark standard qualities before production. A fabric sample is then knitted and dyed to ensure that the finished product will meet the specifications which customers require. Yarns with serious defects are returned to suppliers.

Knitting

Inspected yarns and specialised materials like rayon or spandex are arranged in the cylinder knitting machine for knitting. The needles and shuttles of the cylindrical knitting machines are adjusted to produce patterns specified by customers, and new samples will be knitted and checked prior to full production. Any defects during knitting are detected by the staff on duty and the knitting is halted until the problem is rectified. In addition, quality control staff further inspects the newly knitted fabric prior to the despatch for dyeing.

Dyeing

Samples of fabrics are dyed and checked against the specification of colour samples approved by customers at the laboratory in the Panyu Factory. Once the quality control staff confirm the accuracy of the colour of the dyed samples using various testing devices, the dyeing process begins. This involves placing the grey fabric in dyeing tanks for treatment up to a specific period and temperature, depending on the colour intensity required and material specification. Currently, the Group possesses dyeing tanks with capacity ranging from approximately 50 pounds to 8,000 pounds per tank to cater for different order sizes.

Dehydration and drying

Dyed fabrics are first dehydrated in the centrifugal process. They are then dried in one of the Group's drying machines, namely tumble-drying machines, flat-drying machines, vibration drying machines, or candle-drying machines according to fabric requirements.

Inspection

The dried fabric is run through an inspection machine for inspection by the quality control staff to ascertain that the fabric meets the required standards in terms of colour, uniformity and appearance.

Processing

Depending on customers' specifications, fabrics are processed by various specialised methods to give them the desired finishing and texture. For example, fabrics with different appearances can be produced by napping machines, cutting machines, polishing machines and brushing machines respectively.

Setting

Fabrics are treated by the setting machine in order to meet the customers' requirements on the width, unit weight and shrinkage degree of the fabrics. The setting machine extends the fabric under high temperature to enhance its smoothness and to stabilise its size and shape.

Pre-shrinking

Fabrics are treated by the pre-shrinking machine in order to meet the customers' requirements on the shrinkage ratio. In addition, this process further improves the fabric softness.

Final inspection and packing

Finished products are run through the inspection machine manually once again for final visual inspection by the quality control staff. Qualified products are rolled-up and packaged in air-tight wrappings so that the condition of the fabrics can be maintained throughout transportation.

Set out below is a table summarising the production capacities, the average utilisation rate and the respective production volume of the production facilities of the Group during the Track Record Period:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
Capacity *(million lbs)*				
Knitting	12.8	33.1	56.7	22.5
Dyeing	37.1	71.6	84.2	30.4
Average utilisation rate				
Knitting	84.3%	75.2%	77.4%	78.2%
Dyeing	84.1%	71.7%	73.3%	69.0%
Production volume *(million lbs)*				
Knitting	10.8	24.9	43.9	17.6
Dyeing	31.2	51.4	61.8	21.0

The fabric industry is subject to seasonality. The peak season of the Group's production is usually from March to August every year, during which the production capacity of the Group is almost fully utilised whilst the Group may have spare capacity in the off-peak season.

During the Track Record Period, the Group has outsourced a portion of its orders to other fabric knitting and dyeing manufacturers. Since the dyeing process requires higher workmanship and more sophisticated technical know-how than the knitting process, it is the Group's strategy to accommodate dyeing processes in-house so as to have a better control of product quality. As such, at a given level of capital expenditure, during the Track Record Period, the Group has prioritised the expansion of dyeing capacity while subcontracted relatively more of the standardised knitting works to other parties. Moreover, since the yarn dyeing facilities of the Group are expected to commence operation in late September 2004, the Group has outsourced the yarn dyeing production process to other manufacturers. Save for the fabric knitting services provided by Nanhai Yong Xing Knitting Limited ("Yong Xing") (which was a company then owned as to 70% by Mr. Tai Chin Chun but subsequently disposed of by him to an Independent Third Party in January 2002) amounting to approximately 6.3% of the Group's total cost of sales for the year ended 31 December 2001, all other processing manufacturers were Independent Third Parties. Subsequent to Mr. Tai Chin Chun's disposal of his interest in Yong Xing, the Group outsourced approximately HK$38.7 million of knitting services to Yong Xing in 2002. Thereafter, the Group has not outsourced any knitting services to Yong Xing. During the Track Record Period, the Group's processing cost to Independent Third Parties represented approximately 14.5%, 16.2%, 12.4% and 10.6% of the Group's total cost of sales respectively in each year and the four months ended 30 April 2004. The Group provided the raw materials to these outsourced manufacturers and sent on-site inspectors to monitor production and quality. The Directors confirm that they are not aware of any material disputes with these manufacturers or any material loss due to any dispute during the Track Record Period. The Directors believe that, with the increase in production capacity as illustrated in the Group's expansion plan detailed in the section headed "Future plans and use of proceeds" in this prospectus, the Group will rely less on outsourcing in the future.

PRODUCTION FACILITIES

Production site

The Group's production base and facilities, the Panyu Factory, are situated in Dongchong Town, Panyu District, Guangzhou Municipality, the PRC, with an aggregate site area of approximately 140,303.4 sq.m. and are principally divided into three designated zones, namely Zones A, B and C, details of which are set out as follows:

Zone A

Zone A occupies a site area of approximately 8,834 sq.m.. The major building erected on this site is a four-storey factory building with a total gross floor area of approximately 7,147 sq.m. which is currently used for fabric dyeing and administrative purposes. The Group has been granted a land use right for a term of 50 years expiring on 13 April 2049 for this zone and has obtained the relevant building ownership certificates for the four-storey factory building.

Zone A also comprises three other factory buildings with a total gross floor area of approximately 3,795 sq.m. (representing approximately 5.4% of the Group's total gross floor area of the completed properties held by the Group) in the PRC. These three factory buildings existed prior to KH Textile's acquisition of the equity interest in Panyu Daming in December 1997. Since the relevant documents (including the land use planning for construction works permit, the construction project and planning permit, and the commencement of construction works permit) cannot be located by the Group, and it is expected that it will take a significant amount of time and effort to reissue such documents required for the application of the title certificates for these buildings. The Directors therefore do not anticipate that the title certificates for these buildings will be granted in the foreseeable future. The Directors consider the aforesaid three factory buildings to be immaterial to the Group as they are currently used by the Group for general storage purposes only, and the Directors believe that the Group can easily find substitute storage space (either from independent third parties in adjacent area or the buildings located in Zone C upon their completion). Moreover, a six-storey building (with estimated gross floor area of approximately 5,151 sq.m.) is currently under development for warehousing purposes and the Group is in the process of obtaining the relevant construction work permits. In view of such circumstances, the Group has decided to suspend the construction work temporarily until the construction permits are granted. The estimated gross floor area of this building is approximately 5,151 sq.m., and accounts for only approximately 3.3% of the total gross floor area of the completed properties held and properties under development by the Group.

If such buildings are considered to be illegal or unauthorised structures, the relevant PRC governmental authorities may order rectification steps by remodeling the structure of the buildings and payment of fines, or the authorities may take more severe measures and order demolition or forfeiture of such buildings/structures, details of which are disclosed in the section headed "Risk factors" of this prospectus.

However, the Directors do not consider the relevant buildings to be presently crucial to the Group's operations and expect the effect on the business or production of the Group, in case of forfeiture, to be minimal, and the Sponsor concurs with the Directors' view. Nevertheless, each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in favour of the Group in respect to the relevant buildings, details of which as set out in the sub-paragraph headed "Estate duty, tax and other indemnities" in the paragraph headed "Other information" in appendix VI to this prospectus.

Zone B

Zone B has a site area of approximately 28,741.4 sq.m. and has a total gross floor area of approximately 59,406.2 sq.m. It houses four factory buildings, three dormitory buildings and one warehouse. Production lines for fabric knitting and processing and for quality control are installed and carried out in this zone. The Group has been granted the relevant land use rights for a term of 50 years, expiring on dates ranging from 16 November 2044 to 28 June 2050. The Group has obtained the relevant building ownership certificates for all such buildings erected in this zone.

Zone C

Zone C occupies a site area of approximately 102,728 sq.m., on which the Group is undertaking the development of two factory buildings and two dormitory buildings with permitted gross floor area of approximately 52,535 sq.m. and 14,057 sq.m. respectively. The buildings under construction are principally used to cater for the expansion of the production capacity. In addition, the Group has recently set up a power and steam generating plant, a sewage treatment plant and a water treatment plant on this zone, all of which occupy an aggregate permitted gross floor area of approximately 14,139.3 sq.m.. As these buildings are still under construction, the Group is not required to apply for any title certificates for these buildings. The Group has obtained the relevant construction permits for the development of these buildings (including the land use planning for construction works permit, the construction project and planning permit, and the commencement of construction works permit), details of which have been disclosed in the property valuation report in appendix IV to this prospectus. Once construction is completed, examined, and considered to meet the standards set out by the relevant governmental departments, the Directors and the legal adviser to the Company as to the PRC laws do not anticipate any material obstacles in obtaining such title certificates. The Group has been granted land use rights for terms of 50 years expiring on dates ranging from 24 April 2051 to 13 April 2053 for this zone. It is expected that the construction work of these buildings will be completed in the third or fourth quarter of 2004 and the Group will arrange to apply for the relevant title certificates then.

In order to protect the interests of the Group, the substantial shareholders of the Company, namely Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen have given joint and several indemnities in favour of the Group in relation to the aforesaid buildings in Zone A and Zone C as stated in the paragraph headed "Estate duty, tax and other indemnities" in appendix VI to this prospectus.

The Directors confirmed that the Group had not entered into any contracts for the hire or hire purchase of plant which are substantial in relation to the Group's business during the Track Record Period.

Machinery

The Group places emphasis on the use of advanced machinery to maintain production efficiency and product quality. The Group's production facilities mainly comprise cylindrical knitting machines, fabric dyeing tanks, drying machines, setting machines, polishing machines, brushing machines, cutting machines, napping machines and pre-shrinking machines, many of which were acquired from Hong Kong and other overseas countries and regions including Singapore, Switzerland, Germany and Italy.

During the Track Record Period, considerable investments were made in plant and machinery to cope with the rapid development of the Group, the approximate amounts of which are set out below:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
Knitting machines	9.7	26.6	12.4	7.1
Dyeing tanks	1.5	31.5	7.3	8.1
Processing and auxiliary equipment	2.6	52.3	44.8	12.1
Yarn dyeing machinery	–	–	–	28.2
	13.8	110.4	64.5	55.5

During the Track Record Period, the Group successfully increased its annual fabric dyeing and knitting capacities from 37.1 million pounds and 12.8 million pounds respectively in 2001 to 84.2 million pounds and 56.7 million pounds respectively in 2003. As at the Latest Practicable Date, the annual fabric dyeing and knitting capacities of the Group were approximately 101.5 million pounds and approximately 74.4 million pounds respectively. The increase in the capacities was primarily due to the Group's purchases of additional machinery as summarised below. As at 31 December 2000, the Group had 32 sets of knitting machines and 44 sets of dyeing tanks with annual knitting and dyeing capacities of approximately 8.2 million pounds and approximately 35.1 million pounds respectively.

Knitting

	Equipment purchased	**Accumulative annual capacity of the Group for the year/period** *(million lbs)*
2001	39 sets of knitting machines	12.8
2002	105 sets of knitting machines	33.1
2003	64 sets of knitting machines	56.7
Up to the Latest Practicable Date	36 sets of knitting machines	74.4

Dyeing

	Equipment purchased	Accumulative annual capacity of the Group for the year/period *(million lbs)*
2001	1 set of 4,000 lb dyeing tank	37.1
2002	68 sets of 50 to 4,000 lb dyeing tanks	71.6
2003	13 sets of 50 to 4,000 lb dyeing tanks	84.2
Up to the Latest Practicable Date	4 sets of 4,000 to 8,000 lb dyeing tanks	101.5

To cope with the Group's expansion plan, the Group intends to further increase its production capacity by purchasing additional knitting machines and dyeing and processing facilities. In particular, the Group plans to establish a new yarn dyeing operation with an annual capacity of 30 million pounds at its current production site and is expected to commence this operation in late September 2004. The Group has invested approximately HK$80 million in setting up its new yarn dyeing operation which is designed and installed to be highly computerised and automated. The Directors expect to achieve annual capacities of 120 million pounds for each of the Group's fabric knitting and fabric dyeing operations by the end of 2005. Please refer to paragraph headed "Future plans and prospects" in the section headed "Future plans and use of proceeds" of this prospectus.

Power and steam generating plant

As a large scale knitted fabric manufacturer, the Group requires a considerable amount of electricity for its operation. The Group also needs an abundant supply of steam during the manufacturing process. To ensure a continuous and steady supply of electricity and steam and to minimise production cost, the Group has initially set up a 7,000 KW power and steam generator. At present, the power generator is in testing stage and it is expected that commercial operation will commence by late September 2004. The power generating plant was designed to serve the electricity and steam consumption of the Group. The Group also intends to install a 18,000 KW additional power and steam generator, which is expected to start operation in mid-2005. The Directors confirm that they are not aware of any material interruption of operations as a result of power failure during the Track Record Period. The Directors believe that the Group will achieve cost savings by generating electricity and steam on its own and, nevertheless, the Group may opt to use public electricity whenever there is a need in the future.

The establishment of a power plant and its subsequent generation of electricity and steam within the territory of the PRC are mainly regulated under the "Electricity Law of the People's Republic of China" (電力法) promulgated by the Standing Committee of the National People's Congress of the PRC on 28 December 1995, details of which are set out in the paragraph headed "Regulations governing the power plants in the PRC" under the section headed "Industry overview" of this prospectus.

The Group has obtained the required generator registration certificate, and the Directors confirm that the Group has complied with all the relevant requirements for the operation of a power and steam plant.

Water and sewage treatment facilities

Water supply and discharge are vital to the Group's dyeing operation. During the Track Record Period, water has been purchased from independent suppliers and sewage has been discharged to independent agents for further treatment. To ensure an abundant supply of water suitable for dyeing and to reduce the cost of sewage treatment, the Group decided to set up its own water and sewage treatment plants. At present, both water and sewage treatment plants are undergoing testing and are expected to commence commercial operation by late September 2004. During the Track Record Period, the Group had not experienced any material interruption of operation as a result of water shortage or sewage discharge failure.

RESEARCH AND DEVELOPMENT

The Directors consider research and development vital for the Group to maintain its competitive advantages. As at the Latest Practicable Date, the Group's research and development team has 19 staff. The team also makes use of its marketing network to keep abreast of the developments in the industry.

The Group's research and development function focuses on practical areas that are closely related to the Group's manufacturing function. The major objectives of the research and development function include testing for products with different patterns and new features to satisfy customers' needs and studying ways to lower production costs. The Group plans to base its research and development team in Panyu, where its production facilities are located, and to recruit research and development personnel locally. In doing so, the Directors believe that the research and development function can better serve its purpose as well as take advantage of the lower operating cost in the PRC.

The research and development team of the Group keeps abreast of market and product development trends by attending trade fairs, maintaining close contacts with customers and reviewing industry journals. They also conduct studies on new species of yarn with different features in strength, elasticity, luster, texture and colour. For each type of yarn, the team tests its application in producing different types of fabrics by applying different chemicals. Samples of these new fabrics are sent to the Group's existing customers and potential customers. During the Track Record Period, the Group has successfully blended different types of yarns and applied various chemicals to produce fabrics with different functionalities including stain release, water and oil repellence, warmth-preservation and efficient-ventilation.

Apart from developing new products, the research and development team is also committed to studying optimisation of the production processes, improving production techniques and lowering production costs. During the Track Record Period, the Group has increased the use of more advanced machineries and equipment, such as the robotic dyeing chemical dispenser, to improve the level of automation and hence enhance the cost effectiveness of production.

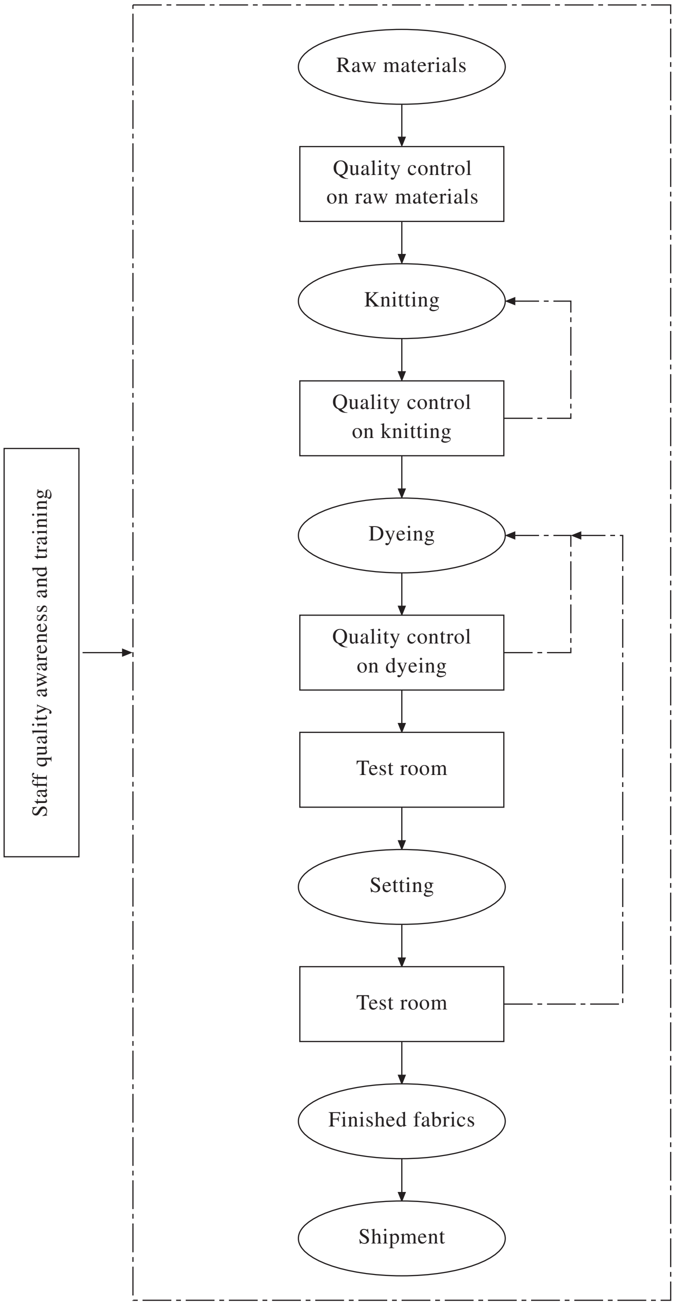
During the Track Record Period, the research and development expenses of the Group were approximately HK$0.6 million, HK$1.2 million, HK$1.7 million and HK$0.4 million respectively in each year and the four months ended 30 April 2004. Such research and development expenses mainly represent salaries of research staff in the PRC and other associated costs incurred during the research and development process.

QUALITY CONTROL

The quality of knitted fabrics is very important to garment manufacturers, as any flaws in the knitted fabrics may disrupt the production process. In view of this, the Group is dedicated to maintaining quality by implementing quality control procedures on raw materials and semi-finished and finished products. In recognition of the Group's efforts in quality control, the Group has been granted the ISO9001:2000 certification on the knitting, dyeing, and finishing of textiles since November 1999.

As at the Latest Practicable Date, the Group has a total of 100 staff for quality control at various stages of the production.

The following chart illustrates the quality control system of the Group's production:



The principal raw materials, cotton yarns, are sampled and inspected. In addition, quality control staff conduct reviews on individual yarn suppliers. Knitted grey fabrics are inspected before they are dyed. After the dyeing procedure, fabrics are inspected again. Subsequently, samples of these dyed fabrics are sent to a test room, where a variety of tests are conducted to ensure that both fabric colour and fabric texture are of quality standard. When these fabrics are set and become finished products, they are again sent to the test room for tests on various features such as shrinkage and colourfastness. The finished fabrics are manually inspected again.

All of the employees at the Panyu Factory receive quality training respective to their working areas. In addition, ISO training courses, new staff orientation, on-the-job continuing technological training and safety training courses are held regularly, either internally or externally, to promote quality awareness of the staff. The Directors confirm that they are not aware of any material claims for defective products from the Group's customers during the Track Record Period.

SALES AND MARKETING

Markets and customers

During the Track Record Period, the Group's merchandise was sold to garment manufacturers, many of whom are suppliers to international fashion apparel brand operators that sell their garment products to customers in the US and other countries. Notwithstanding the fact that the direct customers of the Group are garment manufacturers rather than the international brand carriers, in general, the Group may agree with their end customers on the types of fabrics to be used in the manufacturing process. As part of its marketing strategy, the Group has been working closely with both garment manufacturers and international brand carriers during the fabric assessment and selection process.

As at the Latest Practicable Date, the Group has built up an extensive sales network in Asia. Many of the Group's customers are based in or have set up representative offices in Singapore. During the Track Record Period, approximately 63.2%, 62.7%, 58.2% and 51.9% of the Group's turnover respectively in each year and the four months ended 30 April 2004 was derived from Singapore. In order to get closer to its customers and handle their enquiries more promptly, and to support its sales office in Hong Kong, Mr. Tai Chin Chun and Mr. Tai Chin Wen, through Kam Hing (Tai's) Group Limited (a company incorporated in Hong Kong and owned as to 80% by Mr. Tai Chin Chun and 20% by Mr. Tai Chin Wen), also acquired KH Singapore in March 2003 to maintain a marketing presence in Singapore. During the Track Record Period, all of the Group's sales of fabrics were conducted and recorded in Hong Kong. The staff in Singapore merely provided marketing and customer service to the Group's customers in Singapore. For the year ended 31 December 2001, approximately 11.2% and 7.7% respectively of the Group's turnover was derived from Hong Kong and Taiwan whereas the turnover recorded from Hong Kong and Taiwan was approximately 9.5% and 23.2% respectively for the four months ended 30 April 2004. At present, the Group does not have any arrangement with external sales representatives, agents or distributors in Taiwan. The Group's sales and marketing staff make regular visits to and maintain frequent contact with the customers. In addition to maintaining the growth in its existing markets, the Group intends to further expand into other regions such as the PRC, Korea and Europe to diversify its customer base.

Set out below is a breakdown of the Group's turnover by geographical area for the three years ended 31 December 2003 and the four months ended 30 April 2004:

	Year ended 31 December						Four months ended 30 April	
	2001		2002		2003		2004	
	HK$'million	*%*	*HK$'million*	*%*	*HK$'million*	*%*	*HK$'million*	*%*
Singapore	450.0	63.2	614.5	62.7	641.6	58.2	200.3	51.9
Hong Kong	79.3	11.2	116.7	11.9	125.4	11.4	36.8	9.5
Taiwan	54.8	7.7	103.7	10.6	177.0	16.1	89.5	23.2
Others	127.5	17.9	145.3	14.8	157.6	14.3	59.2	15.4
	711.6	100	980.2	100	1,101.6	100	385.8	100

For each of the three years ended 31 December 2003 and the four months ended 30 April 2004, the five largest customers of the Group accounted for about 64.7%, 66.4%, 65.4% and 62.6% respectively of the Group's turnover, while the largest customer accounted for about 38.7%, 42.1%, 36.2% and 28.4% respectively of the Group's turnover for the same period. Some of the largest customers of the Group have had relationships with the Group since its establishment. The Directors believe that the Group's ability to maintain customer loyalty is mainly attributable to the Group's commitment to product quality and prompt delivery. Save for Wing Hing Knitting (H.K.) Limited ("Wing Hing") (which was owned as to 60% in aggregate by Mr. Tai Chin Chun and Madam Cheung So Wan), being one of the top five customers of the Group and accounting for approximately 3.0% and 3.6% of the turnover for each of the two years ended 31 December 2002 and 2003 respectively, none of the Directors, their associates or shareholders of the Company who own more than 5% of the issued share capital of the Company, has any interest in any of the five largest customers of the Group for each of the three years ended 31 December 2003 and the four months ended 30 April 2004. In November 2003, Mr. Tai Chin Chun and Madam Cheung So Wan disposed of their respective entire interest of 40% and 20% in Wing Hing to the remaining shareholder, being an Independent Third Party. The Directors confirm that the Group does not intend to continue business relationships with Wing Hing in the future.

Credit control

The Group grants credits to its customers depending on their credit worthiness, volume of purchase and years of business relationship with the Group. Aging analysis of the receivable accounts is reviewed regularly by the management and credit limits available to each customer are revised from time to time according to each customer's risk profile. Generally, the Group requests that customers settle accounts by letter of credit. The Group may accept documents against acceptance or open credit for customers with established business relationships with the Group. The Group's credit control unit monitors and follows up on the outstanding balances.

The provision of doubtful debts and bad debts written off charged to profit and loss accounts for the three years ended 31 December 2003 were approximately HK$1.2 million, HK$4.6 million and HK$3.1 million in aggregate, representing approximately 0.2%, 0.5% and 0.3% of the Group's turnover respectively. During the four months ended 30 April 2004, the Group has not recorded any provision for doubtful debts and bad debts written off. Specific provisions are made when the amount due from a specific customer is determined as uncollectable.

Approximately 88.3% of the Group's turnover was settled in United States dollars while the remaining portions were settled in Hong Kong dollars during the Track Record Period.

Seasonality

The Group's sales are subject to seasonal fluctuation due to the weight difference in summer and winter fabrics. Fabrics are principally priced according to their weight and processing complexity. Therefore, the peak season of the Group's products is from March to August every year when orders for winter garments are made, representing approximately 70.3%, 70.0% and 61.5% respectively of the Group's turnover for the three years ended 31 December 2003.

Sales and marketing

As at the Latest Practicable Date, the Group's marketing, sales and customer services had 127 staff in total and it is headed by Mr. Tai Chin Chun, the chairman of the Company. Set out below is a summary of the geographical location of its marketing, sales and customer services staff:

	Hong Kong	**PRC**	**Singapore**	**Total**
Marketing	4	–	5	9
Sales and customer services	20	98	–	118
Total	24	98	5	127

The Group's marketing division is principally responsible for maintaining close contact with existing customers and international brand carriers. The Group's marketing division makes regular visits to the Group's major customers to collect information on market demand and trends for the purpose of formulating the production and sales plan for up-coming seasons. During the Track Record Period, they have attended certain trade shows (including AMC/Target Corporation Textile Expos, Interstoff Asia-Spring – International Fabric Show and Hong Kong Fashion Week) in order to introduce the Group's products to international apparel companies, retailers and department stores. In some of the trade shows, the Group set up exhibition booths to present the Group's products to buyers around the world. The Group also took opportunities to discuss upcoming fashion trends with various designers. The marketing team in Hong Kong mainly serves customers in Hong Kong, Taiwan and South Korea while the marketing team in Singapore mainly serves customers in Singapore, Malaysia, Africa and America.

The Group's sales and customer service division comprises six teams, each of which is responsible for handling orders of different customers. They are the front line staff, dealing with the customers for the entire sales cycle. Their principal duties include contract preparation, order status monitoring, handling of customer enquiries, assurance of product specification and assurance of delivery time. The Group's sales headquarters is located in Hong Kong. Sales and customer services forces in the PRC support the sales team in Hong Kong by directly monitoring the production in the PRC.

PURCHASES

Raw materials used by the Group consist principally of yarns and dyeing chemicals. Dyeing chemicals are purchased mainly in Hong Kong and the PRC. Depending on the price and quality required, cotton yarns are mainly purchased from suppliers in the PRC, Pakistan and Indonesia. The Group obtains samples from the suppliers to conduct quality inspection before entering into any contract. Although the Group has not entered into any long term supply contracts with its suppliers, it has maintained long-term business relationships with its major suppliers. Currently, the Group has more than 20 active yarn suppliers. Save for the rebound in yarn price in the second half of 2003, the average yarn price paid by the Group has decreased gradually since 2001, the Directors confirm that they are not aware of any significant difficulties in sourcing raw materials during the Track Record Period.

For the three years ended 31 December 2003 and the four months ended 30 April 2004, the cost of yarn consumption accounted for approximately 59.7%, 63.4%, 66.1% and 66.4% respectively of the Group's total cost of sales. Given that customers usually place orders one to three months in advance, the Group has taken into account the effect of the change in price in the raw material costs when formulating its pricing strategies. Accordingly, the Group has adjusted the selling prices of the fabrics to cater for the movement in the price of raw materials. During the Track Record Period, the cost of yarn accounted for approximately 49.7%, 49.5%, 49.9% and 51.4% respectively of the Group's total sale of knitted fabrics. During the Track Record Period, the Group purchased approximately HK$357.6 million, HK$520.0 million, HK$683.1 million and HK$249.4 million of yarn at an average price of HK$9.15/lb, HK$8.81/lb, HK$8.43/lb and HK$10.06/lb respectively. To maintain a smooth production process, it is the Group's policy to aim to maintain a minimum stock level of cotton yarns to meet production demand for 60 to 90 days while taking into account the expected price trend of cotton yarns and the projected production requirement of the Group. As at the Latest Practicable Date, the Group had approximately 18.5 million pounds of cotton yarns as inventory, which could be used to meet the production demand of the Group for approximately 60 days.

Generally, the Group only commences production after receiving a confirmed sales order and keeps adequate levels of raw materials to meet the production need. At the same time, the Group's inventories are properly stored and insured. The Group's provision policy on obsolescent inventories is to make specific provision with reference to the age and condition of the inventories. The provision of obsolescent inventories charged to the profit and loss accounts of the Group for the two years ended 31 December 2002 and 2003 were approximately

HK$9.9 million and HK$2.7 million respectively. During the year ended 31 December 2003, the Group made efforts to enhance its operation efficiency in inventory control and order follow-up. As a result, by the end of 2003, there were fewer finished and grey fabrics in inventory aged over one year, resulting in a lower provision made for this year. The Group has not recorded any provision for the four months ended 30 April 2004.

For each of the three years ended 31 December 2003 and the four months ended 30 April 2004, the five largest suppliers of the Group accounted for approximately 27.7%, 32.4%, 27.5% and 31.6% respectively of the Group's total cost of purchase, while the largest supplier accounted for approximately 15.2%, 16.0%, 6.9% and 12.8% respectively of the Group's total purchases.

None of the Directors, their associates or, as far as the Directors are aware of, shareholders of the Company who own more than 5% of the issued share capital of the Company or any of their respective associates had any interest in any of the five largest suppliers of the Group during the Track Record Period.

Purchases of the Group are principally denominated in Renminbi, Hong Kong dollars and United States dollars with credit up to 120 days for purchase of yarn and up to 180 days for purchase of dyeing chemicals. Settlement of purchases is generally by letter of credit.

COMPETITION

The Group faces competition from Hong Kong local and PRC domestic manufacturers, in particular from those who have invested significant capital investment in plant and machinery comparable to, or even more substantial than, that of the Group. Moreover, the number of domestic competitors is growing and the Group may face additional competition in the PRC. In overseas markets, the Group's major competitors are manufacturers in foreign countries such as India and Pakistan, where the labour costs may be lower than those in the PRC. Nevertheless, the Directors believe that the quality of the Group's products is higher and more guaranteed thus enabling the Group to maintain and further expand its customer base.

The Directors consider there exists several major entry barriers to becoming an integrated fabric manufacturer comparable to the Group, namely (i) the capital intensive nature of the industry with the need for high-cost machinery and equipment; (ii) the capital requirements of investing in other on-site auxiliary facilities such as power and steam generators, water filtering and sewage water treatment plants; and (iii) the importance of recognized market reputation in providing assurance of product quality and establishment of the sales and marketing network.

As a result of the PRC's entry into WTO, the trade restrictions imposed on PRC-originated garment products will be gradually phased out. The Directors believe that such change in the business environment may attract foreign investment in PRC's textile enterprises. The competition in the textile industry may increase in the long run.

However, the Directors believe that the Group enjoys the following competitive advantages:

- vertically integrated production process: the Group has production facilities for fabric knitting, dyeing, setting and finishing, which give the Group significant cost advantage and timely delivery capabilities;

- continuous effort by the management to upgrade the Group's production equipment;

- commitment to quality, service and product development: the Group has adopted a comprehensive quality control system, evidenced by its accreditation of the ISO9001:2000 certification on knitting, dyeing and finishing of textiles. The Group has also made continuous efforts in research and development to cater for the needs and preferences of its customers;

- established publicity and clientele: the Group has established long-term relationships with brand operators and garment manufacturers. The Group has on average more than 5 years of business relationship with each of its top five customers; and

- management's efforts to upgrade the managerial standard.

Apart from the aforesaid, the Directors consider that once the Group's power generator and water and sewage treatment plants are in full operation, the Group will achieve further cost savings over its competitors who rely on external power and steam supply and sewage discharging agents.

ENVIRONMENTAL PROTECTION

Under the prevailing laws and regulations in the PRC, any enterprise that discharges pollutants is required to obtain approval from relevant environmental protection authorities. For the approval to be granted, the enterprise must have proper pollutant discharge and treatment arrangements in place and take pollution control measures to the satisfaction of the authority. In addition, the enterprise is required to pay fees for the discharge of such pollutants. The Directors confirm that the Group has not been in breach of any relevant environmental protection laws and regulations since its establishment.

The Group places emphasis on environmental protection issues. During the Track Record Period, the Group obtained the Sewage Discharge Approval of Guangdong Province (廣東省排放污染物許可證) and appointed Panyu Dongchong Industrial Sewage Treatment Station (番禺區東涌工業污水處理站) for the treatment of its sewage water. In anticipation of the increase in the Group's operation and to minimise the sewage treatment costs incurred, the Group has obtained approval to set up its own water and sewage treatment facilities to process and discharge the sewage generated from its production process. At present, the water supply and sewage treatment facilities are under testing.

CONNECTED TRANSACTIONS

The following transactions have been carried out by the Group and its connected persons (as defined in the Listing Rules) and are expected to continue following the listing of the Shares on the Main Board:

The Transactions

(a) Parc Royale tenancy agreement

On 1 April 2004, the Group entered into a tenancy agreement (the "Parc Royale Tenancy Agreement") with Goldwille Investments Limited ("Goldwille") whereby Goldwille agreed to lease to the Group the property at Flats A and B, 21st Floor, Tower 9, Parc Royale, No.8 Hin Tai Street, Shatin, New Territories, Hong Kong for a monthly rental fee of HK$26,000 (exclusive of management fees, rates and utilities) for a term of one year commencing from 1 April 2004 as the directors' quarters for Mr. Tai Chin Chun and Madam Cheung So Wan.

Goldwille is a company with limited liability incorporated in Hong Kong and whose entire issued share capital is held by Mr. Tai Chin Chun, the chairman and an executive Director of the Company, as to 70% and Madam Cheung So Wan, an executive Director, as to 30%. The principal place of business for Goldwille is Hong Kong, and its principal business is property investment holding.

(b) Lucida tenancy agreement

On 1 April 2004, the Group entered into a tenancy agreement (which together with the Parc Royale Tenancy Agreement, the "Tenancy Agreements") with Mr. Tai Chin Chun and Mr. Tai Chin Wen whereby Mr. Tai Chin Chun and Mr. Tai Chin Wen agreed to lease to the Group the property at workshop no. 9, 8th Floor and workshops no. 1-3 and 9, 12th Floor, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong for a monthly rental fee of HK$20,000 (exclusive of management fees, rates and utilities) for a term of one year commencing from 1 April 2004 as the Group's administrative office.

The Board, including the independent non-executive Directors, are of the view that the Tenancy Agreements are entered into on normal commercial terms and on arm's length basis, and that the terms of the Tenancy Agreements are fair and reasonable so far as the shareholders of the Company are taken as a whole. Based on the confirmation given by Sallmanns (Far East) Limited, and market information provided by the Directors, the Sponsor is of the view that the terms of the Tenancy Agreements are of normal commercial terms and are fair and reasonable so far as the shareholders of the Company are taken as a whole.

The Listing Rules

The transactions contemplated under the Tenancy Agreements will constitute connected transactions under Chapter 14A of the Listing Rules upon the listing of the Shares on the Main Board. However, since each of the percentage ratios (other than the profits ratio) as stated in Rule 14.04(9) of the Listing Rules of total consideration of the transaction contemplated under each of the Tenancy Agreements is less than 0.1% or equal to or more than 0.1% but less than 2.5% and the total consideration is less than HK$1,000,000, the transactions are exempted from reporting, announcement and independent shareholders' approval pursuant to Rule 14A.31(2) of the Listing Rules.

Save and except as disclosed in the above and in the paragraph headed "Related party transactions" in the accountant's report set out in appendix I to this prospectus, the Group had not entered into any connected transactions or related party transactions during the Track Record Period.

BOARD OF DIRECTORS

Executive Directors

Mr. Tai Chin Chun (*戴錦春*), aged 42, is the chairman, managing director and founder of the Group. He is in charge of the Group's corporate strategy, planning and overall development. He has more than 20 years of experience in the textile industry. Before founding the Group, Mr. Tai has worked in two local knitting factories in Hong Kong for 13 years, where he was principally responsible for factory and production management. Mr. Tai then engaged in the trading of fabrics in 1993. Mr. Tai is a standing member of the Political Consultative Committee of Panyu District, Guangzhou City (中國人民政治協商會議廣州市番禺區委員會會員). He has also been awarded honorary citizenship of Guangzhou Municipal. Mr. Tai is the younger brother of Mr. Tai Chin Wen and the spouse of Madam Cheung So Wan.

Mr. Tai Chin Wen (*戴錦文*), aged 49, is the vice-chairman, executive Director and founder of the Group. He is in charge of the Group's overall management. He was also a founder of a construction business in Hong Kong in 1993, which was principally engaged in the construction of glass wall for commercial buildings, with orders subcontracted from other contractors. Before that, Mr. Tai has worked in two local factories for 12 years, where he was principally responsible for overall business management. Mr. Tai has over 20 years of management experience in the manufacturing industry. Mr. Tai is a standing member of the Political Consultative Committee of Nan An City (中國人民政治協商會議南安市委員會會員) of the Fujian Province. He has also been awarded honorary citizenship of Guangzhou Municipal. Mr. Tai is the elder brother of Mr. Tai Chin Chun and the spouse of Madam Wong Siu Yuk.

Madam Cheung So Wan (*張素雲*), aged 41, is an executive Director of the Group. She is responsible for yarn sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Madam Cheung joined the Group in November 1996. Before that, she has worked for Kam Hing Piece Works Company, the predecessor of KH Piece Works. Madam Cheung has more than 10 years of experience in the textile industry. Madam Cheung is the spouse of Mr. Tai Chin Chun.

Madam Wong Siu Yuk (*黃少玉*), aged 43, is an executive Director of the Group. She is responsible for dyeing material sourcing, quality control and stock control in the Group, and assists in the overall management of the Group. Madam Wong joined the Group in December 1996. Before that, Madam Wong has worked for Kam Hing Piece Works Company, the predecessor of KH Piece Works. Madam Wong has more than 10 years of experience in the textile industry. Madam Wong is the spouse of Mr. Tai Chin Wen.

Independent non-executive Directors

Mr. Chong Chau Lam (*莊秋霖*), aged 54, is a senior lecturer at the Institute of Textiles and Clothing of the Hong Kong Polytechnic University. Mr. Chong obtained a Higher Diploma in Dyeing, Printing & Finishing from the Hong Kong Technical College and a Master in Business Administration degree from the University of East Asia. He is an Associate Member of both the Society of Dyers & Colourists and the Textile Institute in UK, and was awarded the Silver Medal by the Society of Dyers & Colourists in 1982. Prior to joining the Institute of Textiles & Clothing in 1975, he worked as an engineer in a local textile company. He is also currently a member of the Dyeing & Finishing Specialist Committee, The China Textile Engineering Association, and an active technical consultant in the dyeing and finishing sector. Mr. Chong joined the Group on 30 March 2004.

Madam Chu Hak Ha, Mimi (*朱克遐*), aged 40, is a solicitor practising in Hong Kong and a partner of David Lo & Partners, a law firm in Hong Kong. Madam Chu is also qualified to practise in both England and Wales and the Australian Capital Territory. Madam Chu joined the Group on 30 March 2004.

Mr. Chan Yuk Tong (*陳育棠*), aged 42, has almost 20 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently a shareholder and a practising director of a CPA firm, and a shareholder of a financial consulting firm where he acts as a director and the president. He is also an independent non-executive director of Suwa International Holdings Limited, whose securities are listed on the Stock Exchange. Prior to establishing his own businesses, he was both an executive director and the chief financial officer of Tak Sing Alliance Holdings Limited, whose securities are listed on the Stock Exchange. He then served as a finance director in a regional retail group and subsequently became a sales director in the same group. He has also worked for a number of international accounting firms for over 13 years. Mr. Chan obtained a bachelor degree in Commerce from the University of Newcastle in Australia. He is a fellow member and a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan joined the Group on 30 March 2004.

SENIOR MANAGEMENT

Mr. Koon Kan Sang, Harris (管更生), aged 42, is the general manager of the Group. He is responsible for the overall management and administration in the Group. He was awarded an associateship in textile technology by the Hong Kong Polytechnic in 1986. He also possesses a graduateship certificate issued by the Diploma Committee of the Textile Institute in the United Kingdom. Mr. Koon has over 18 years of experience in textile industry. Before joining the Group in May 2004, Mr. Koon has worked for five fabric companies in Hong Kong in the capacities of both a director and a general manager.

Mr. Kung Wai Chung (*龔衛忠*), aged 46, is the deputy general manager of the Group. He is responsible for the overall management and administration in the Group. He possesses a Craft Certificate in Tool and Die Making awarded by Kwai Chung Technical Institute and a Professional Certificate in Business Management awarded by Hong Kong Open University. Mr. Kung has over 10 years of experience in the textile industry. Before joining the Group in November 1996, Mr. Kung worked for Kam Hing Piece Works Company, the predecessor of KH Piece Works, where he was responsible for its overall business administration. Mr. Kung is a brother-in-law of both Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Mr. Wong Yi Ming (*黃一鳴*), aged 40, is the deputy general manager of Panyu KH Textile and is responsible for the overall management and administration of Panyu KH Textile. Mr. Wong obtained a master of Business Administration Degree from the Zhongshan University. He has more than 20 years of management experience in the textile industry. Before joining the Group in September 1997, Mr. Wong has worked for two companies in the PRC for 16 years, where he was responsible for financial and business management. Mr. Wong is the younger brother of Madam Wong Siu Yuk.

Mr. Yang Sing Wai (*楊升偉*), aged 40, is the factory manager of the dyeing operation of Panyu KH Textile, and is responsible for the monitoring and management of the Group's fabric dyeing operation. Before joining the Group in December 1997, Mr. Yang has worked for a dyeing company for 12 years, where he was responsible for technology dyeing and processing works. Mr. Yang obtained a master of Business Administration Degree from the Zhongshan University. He has more than 18 years of experience in the textile industry.

Mr. Chan Ying Wah (*陳映華*), aged 48, is the factory manager of the knitting operation of Panyu KH Textile, and is responsible for the monitoring and managing the Group's knitting operation. Prior to joining the Group in January 2003, Mr. Chan has worked for two knitting companies for over 20 years.

Mr. Wong Yin Ming (*王燕明*), aged 43, is a factory manager of the yarn dyeing operation of Panyu KH Textile. Mr. Wong is responsible for the monitoring and management of the Group's yarn dyeing operation. Prior to joining the Group in June 2004, he has worked for several dyeing companies in the PRC and overseas for 10 years.

Mr. Ho Yi Piu, Bill (*何宜標*), aged 35, is the director of KH Singapore, and is in charge of the Group's sales and marketing function. Mr. Ho obtained a diploma in Business Administration from the Society of Business Practitioners, Cheshire, England. Prior to joining the Group in June 1999, he worked for a fabric trading company in Hong Kong for 5 years. He has more than 10 years of experience in the textile industry. Mr. Ho is a son-in-law of a brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Mr. Wong Wai Hung (*黃偉洪*), aged 40, is the sales manager of the Group and is responsible for sales and marketing. He possesses a Higher Diploma in Textile Chemistry awarded by The Hong Kong Polytechnic University. Prior to joining the Group in August 2001, Mr. Wong has worked for several knitting, dyeing and textile companies. Mr. Wong has over 17 years of experience in the textile industry.

Mr. Wong Wai Kong, Elmen (*黃偉光*), aged 38, is the Group's chief financial officer and is responsible for the supervision and management of the Group's financial matters. Mr. Wong is also the Company's full-time qualified accountant and company secretary. He obtained a Bachelor of Business Administration degree from the Hong Kong Baptist University, a Master of Business Administration degree from the University of Sheffield and a Master of Science in Business Information Technology degree from Middlesex University. Prior to joining the Group in December 2002, he gained extensive financial experience by working as an auditor in two international accounting firms for 5 years. He has also worked for a subsidiary of Shun Tak Holdings Limited, a Main Board listed company, for three years. He was the assistant financial controller upon his departure. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a practising certified public accountant in Hong Kong.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Wai Kong, Elmen (*黃偉光*) is the company secretary, an authorised representative and the qualified accountant of the Company. Details of Mr. Wong are set out in the paragraph headed "Senior management" in this section to this prospectus.

STAFF

Overview of number of staff

The Group has 1,916 staff as at the Latest Practicable Date, with 1,827 in the PRC, 83 in Hong Kong and 6 in Singapore. A breakdown of its workforce by function is as follows:

	Hong Kong	**PRC**	**Singapore**	**Total**
Management	12	17	1	30
Sales and marketing	24	98	5	127
Production	6	1,302	–	1,308
Accounting and finance	13	21	–	34
Purchasing	3	20	–	23
Quality control	–	100	–	100
Research and development	–	19	–	19
General and administration	25	250	–	275
Total	83	1,827	6	1,916

Relationship with 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

The Group operates a defined contribution retirement benefits scheme under the MPF Ordinance for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The Group's employer contribution vest fully with the employees when contributed to the scheme in accordance with the rules of the scheme. The Group contributes the lower of HK$1,000 or 5% of the relevant monthly payroll costs to the scheme, a contribution matched by employees.

As required under the Regulation on Injury Insurance (工傷保險條例), Interim Measures Concerning the Maternity Insurance (企業職工生育保險試行辦法), Interim Regulations Concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) and the Interim Measures Concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) in the PRC, the Group is obliged to provide its employees in PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance. In addition, pursuant to the Regulation on Management of Housing Fund (住房公積金管理條例), each of the employee and the Group is required to contribute no less than 5% of the basic employee salary. The Directors confirm that the Group has fully complied with the relevant requirement in relation to the insurance plans and the housing fund during the Track Record Period. Save as disclosed above, the Group is not required under the PRC laws and regulations to provide any other staff welfare schemes.

AUDIT COMMITTEE

The Company has established an audit committee on 25 August 2004 with written terms of reference 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 and supervise the financial reporting process and internal control system of the Group. The audit committee has 3 members, namely Mr. Chong Chau Lam, Madam Chu Hak Ha, Mimi and Mr. Chan Yuk Tong, all being independent non-executive Directors. Mr. Chan Yuk Tong is the chairman of the audit committee.

DIRECTORS' REMUNERATION

The Directors received remunerations from the Group during the Track Record Period. The remunerations paid to the Directors for the three years ended 31 December 2003 and the four months ended 30 April 2004 are set out below:

	For the year ended 31 December			Four months ended 30 April
Directors	**2001**	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tai Chin Chun	1,069	2,661	2,776	872
Mr. Tai Chin Wen	314	1,510	1,651	550
Madam Cheung So Wan	289	336	512	170
Madam Wong Siu Yuk	203	335	510	170
Mr. Chong Chau Lam	–	–	–	–
Madam Chu Hak Ha, Mimi	–	–	–	–
Mr. Chan Yuk Tong	–	–	–	–
Total	1,875	4,842	5,449	1,762

During the Track Record Period, the Directors were entitled to a discretionary bonus. The discretionary bonus was determined by making reference to individual performance and profit level of the Group for the year. During the Track Record Period, the aggregate discretionary bonus for the executive Directors represented approximately 1%, 2%, 2% and 3% of the net profit for the respective years/period.

Each of the executive Directors has entered into a service contract with the Company, further details of which are set out in the sub-paragraph headed "Particulars of service contracts" in the paragraph headed "Further information about directors, management and staff" in appendix VI to this prospectus.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme which, in the opinion of the Directors, will enable the Group to recruit and retain high-calibre employees and to improve employee loyalty. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in appendix VI to this prospectus.

INTEREST DISCLOSURE UNDER THE SFO

So far as the Directors are aware, immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account Shares which may be taken up under the Share Offer or Shares which fall to be allotted and issued pursuant to the exercise of the Over-allotment Option), the following persons/entities will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of part XV of the SFO, or, 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 members of the Group.

Name	Capacity	Number of Shares	Percentage of holding
Exceed Standard *(Note 1)*	Beneficial owner	384,000,000 long position	60%
	–	24,000,000 short position	3.75%
Mr. Tai Chin Chun *(Note 2)*	Interest of a controlled corporation	384,000,000 long position	60%
	Short position of a controlled corporation	24,000,000 short position	3.75%
Power Strategy *(Note 1)*	Beneficial owner	96,000,000 long position	15%
Mr. Tai Chin Wen *(Note 3)*	Interest of a controlled corporation	96,000,000 long position	15%
Madam Cheung So Wan *(Note 4)*	Interest of spouse	384,000,000 long position	60%
	Short position of spouse	24,000,000 short position	3.75%
Madam Wong Siu Yuk *(Note 5)*	Interest of spouse	96,000,000 long position	15%

Notes:

1. The entire issued capital of Exceed Standard is beneficially owned by Mr. Tai Chin Chun. The entire issued capital of Power Strategy is beneficially owned by Mr. Tai Chin Wen. Out of the 384,000,000 Shares held by Exceed Standard, 24,000,000 Shares are subject to the arrangements under the Securities Lending Agreement.

2. The Shares are held by Exceed Standard, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Chun. Out of the 384,000,000 Shares held by Exceed Standard, 24,000,000 Shares are the subject of the Securities Lending Agreement.

3. The Shares are held by Power Strategy, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Wen.

4. Madam Cheung So Wan is deemed to be interested and have short position in these Shares through the interest and short position of her spouse, Mr. Tai Chin Chun.

5. Madam Wong Siu Yuk is deemed to be interested in these Shares through the interest of her spouse, Mr. Tai Chin Wen.

If the Over-allotment Option is exercised in full, the shareholding of Exceed Standard and Power Strategy in the Company will be 57.8% and 14.5% respectively.

RESTRICTIONS ON DISPOSAL OF SHARES

Each of Exceed Standard, Mr. Tai Chin Chun, Power Strategy and Mr. Tai Chin Wen has undertaken to the Stock Exchange, the Sponsor, the Underwriters and the Company that:

(a) except pursuant to the Securities Lending Agreement, within the six months from the Listing Date (the "First Six Month Period"), it shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of (or procure that Exceed Standard and Power Strategy not to dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in the case of Mr. Tai Chin Chun and Mr. Tai Chin Wen) any of the Shares beneficially owned by Exceed Standard and Power Strategy; and

(b) except pursuant to the Securities Lending Agreement, within the six months from the date after the expiry of the First Six Month Period, it shall not dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of (or permit Exceed Standard and Power Strategy to dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in the case of Mr. Tai Chin Chun and Mr. Tai Chin Wen) any of the Shares beneficially owned by Exceed Standard and Power Strategy if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrance, Exceed Standard, Mr. Tai Chin Chun, Power Strategy and Mr. Tai Chin Wen would cease to be controlling shareholders (as defined in the Listing Rules) of the Company.

Each of Exceed Standard and Power Strategy has also undertaken to the Stock Exchange, the Sponsor, the Underwriters and the Company that within the 12 months from the Listing Date, it shall:

(1) when it pledges/charges any Shares beneficially owned by it in favour of the authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

(2) 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 authorised and issued share capital of the Company is as follows:

		HK$
Authorised:		
2,000,000,000	Shares	200,000,000
Issued and to be issued, fully paid or credited as fully paid:		
2,000,000	Shares in issue	200,000
478,000,000	Shares to be issued under the Capitalisation Issue *(Note)*	47,800,000
160,000,000	Shares to be issued under the Share Offer	16,000,000
640,000,000	Shares	64,000,000

Note: Pursuant to the written resolutions of all the shareholders of the Company passed on 25 August 2004, conditional upon the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise the amount of HK$47,800,000 from the amount standing to the credit of the share premium account of the Company and to appropriate such amount as to pay up in full at par 478,000,000 Shares for allotment and issue to the persons whose names appeared on the register of members of the Company at the close of business on 25 August 2004, pro-rata (as nearly as possible without involving fractions) to its/their then existing shareholdings in the Company.

Assumptions

This table assumes the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein.

It takes no account of any Shares which may be allotted and issued under the Over-allotment Option or upon the exercise of options granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or purchase of Shares granted to Directors or any Shares which may be bought back by the Company pursuant to the general mandate given to the Directors for the repurchase of Shares as referred to below or otherwise.

Ranking

The Offer Shares will rank equally with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus, except for the entitlements under the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed "Share Option Scheme" in appendix VI to this prospectus.

General mandate to issue Shares

Conditional on the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

(1) 20% of the aggregate amount of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue; and

(2) the aggregate nominal amount of the Shares repurchased by the Company (if any) pursuant to the repurchase mandate (as referred to below).

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by the Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or on the exercise of the Over-allotment Option or options granted under the Share Option Scheme do not generally require the approval of shareholders of the Company in general meeting and the aggregate nominal amount of Shares which the Directors are authorised to allot and issue pursuant to this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire:

– at the end of the Company's next annual general meeting;

– at the end of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or

– when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever is the earlier.

For further details of this general mandate, see the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in the section headed "Further information about the Company" in appendix VI to this prospectus.

General mandate to repurchase Shares

Conditional on the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in the section headed "Further information about the Company" in appendix VI to this prospectus.

This mandate will expire:

– at the end of the Company's next annual general meeting;

– at the end of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or

– when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever is the earlier.

For further details of this general mandate, see the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in the section headed "Further information about the Company" in appendix VI to this prospectus.

INDEBTEDNESS

Borrowings

At the close of business on 31 July 2004, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK$370.0 million comprising secured bank loans of approximately HK$180.9 million, unsecured bank loans of approximately HK$104.8 million and finance lease payables of approximately HK$84.3 million. Approximately HK$213.6 million of the total outstanding borrowings are repayable within one year and the remaining balances of approximately HK$156.4 million are repayable beyond one year but within five years.

Securities

The Group's borrowings are secured by (i) properties owned by the Group; (ii) properties owned by certain directors of the Company and/or its subsidiaries; (iii) properties owned by a related company of the Group; (iv) fixed deposits owned by the Group; (v) personal guarantees given by certain directors of the Company; (vi) cross corporate guarantees executed by the subsidiaries; (vii) charge over securities owned by a director of the Company; and (viii) two taxi vehicles (including licenses) owned by a related company of the Group.

The underlying financial institutions have agreed in principle that the securities and guarantees set out in (ii), (iii), (v), (vii) and (viii) above will be released upon the listing of the Shares on the Stock Exchange and replaced by securities of and/or corporate guarantees to be provided by the Company and/or other members of the Group upon the listing of the Shares on the Stock Exchange.

Contingent liabilities

As at 31 July 2004, the Group had bills discounted with recourse of approximately HK$149.9 million.

Disclaimers

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding indebtedness at the close of business on 31 July 2004 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

No material changes

Save as disclosed herein, the Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 July 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group generally finances its operations with internally generated resources and banking facilities provided by its banks.

As at 31 July 2004, the Group had aggregate banking and credit facilities of approximately HK$678.1 million, of which approximately HK$410.3 million had been utilised and were secured by (i) properties owned by the Group; (ii) properties owned by certain directors of the Company and/or its subsidiaries; (iii) properties owned by a related company of the Group; (iv) fixed deposits owned by the Group; (v) personal guarantees given by certain directors of the Company; (vi) cross corporate guarantees executed by the subsidiaries; (vii) charge over securities owned by a director of the Company; and (viii) two taxi vehicles (including licenses) owned by a related company of the Group.

Net current assets

Based on the unaudited combined management accounts of the Group as at 31 July 2004, the Group had net current assets of approximately HK$135.1 million. The current assets of approximately HK$621.9 million comprised inventories of approximately HK$248.0 million, accounts and bills receivables of approximately HK$280.6 million, prepayments, deposits and other receivables of approximately HK$33.5 million, pledged bank deposits of approximately HK$30.5 million, cash and bank balances of approximately HK$29.2 million and tax recoverable of approximately HK$0.1 million; and current liabilities of approximately HK$486.8 million comprised secured bank borrowings and finance lease payables of approximately HK$213.6 million, accounts and bills payable of approximately HK$203.6 million, accrued and other payables of approximately HK$47.0 million, and tax payable of approximately HK$22.6 million.

Capital structure

As at 31 July 2004, the Group had net tangible assets of approximately HK$394.6 million, comprising non-current assets of approximately HK$415.9 million (comprising fixed assets), net current assets of approximately HK$135.1 million and non-current liabilities of approximately HK$156.4 million (comprising unsecured bank loans, finance lease payables and deferred tax liabilities).

Cash flows

The Group funds its capital requirements primarily through cash from operations and bank borrowings. The cash from operations and the Group's ability to fund its capital expenditure needs could be adversely affected by downturns in demand for the Group's products.

Operating activities

Net cash inflow from operating activities of approximately HK$13.6 million for the year ended 31 December 2001 increased to approximately HK$86.2 million for the year ended 31 December 2003. The increase in net cash from operating activities from 2001 to 2003 was primarily due to the increase in turnover. For the four months ended 30 April 2004, the Group recorded net cash outflow from operating activities of approximately HK$4.2 million which was principally due to the fact that only four months' operating results were recorded in the period and the peak season of the Group's business is usually from March till August every year.

Investing activities

Net cash outflow from investing activities amounted to approximately HK$40.8 million, HK$126.4 million and HK$106.7 million for the three years ended 31 December 2001, 2002 and 2003, respectively, representing an increase of approximately HK$85.6 million, or 209.7% for 2002 and a decrease of approximately HK$19.7 million or 15.6% for 2003. In each of the year, the Group's investing activities mainly comprised purchases of fixed assets. For the four months ended 30 April 2004, the net cash outflow from investing activities amounted to HK$51.5 million.

Financing activities

Net cash inflow from financing activities amounted to approximately HK$15.8 million, HK$75.6 million and HK$22.5 million for the three years ended 31 December 2001, 2002 and 2003, respectively, representing an increase of approximately HK$59.8 million, or 379.7% for 2002 and a decrease of approximately HK$53.1 million, or 70.3% for 2003. The movements in the cash inflow from financing activities were consistent to the level of additions in fixed assets purchased by the Group. For the four months ended 30 April 2004, the net cash inflow from financing activities increased to HK$43.0 million, which was mainly attributable to the increase in net drawdown of bank loans for the purchases of fixed assets and additional working capital during the period.

Capital commitments

As at 31 July 2004, the Group had capital commitments of approximately HK$28.5 million (30 April 2004: HK$17.9 million) in respect of new production machinery and construction works contracted but not provided for.

In addition, as at 31 July 2004, the Group had commitments in respect of capital contribution in the amount of US$5.8 million (approximately HK$45.3 million) (30 April 2004: US$20.0 million (approximately HK$156.2 million)) and HK$5 million (30 April 2004: HK$5 million) to two wholly-owned subsidiaries, Panyu KH Textile and Kam Sing, established in the PRC, respectively.

Working capital

Taking into account the cashflow generated from the operating activities, the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this prospectus.

Foreign exchange

During the Track Record Period, approximately 88.7%, 87.0%, 88.5% and 90.4% of the Group's sales were denominated in US dollars. The remaining sales were denominated in Hong Kong dollars. The majority of the Group's cost of sales and capital expenditures were denominated in Renminbi and Hong Kong dollars. Accordingly, the Directors are of the view that, to a certain extent, the Group has been and will continue to be exposed to foreign currency exchange risk. However, the exchange rate of US dollars and Renminbi has been relatively stable in recent years. Furthermore, the Group did not experience any material operating difficulties in or effects of liquidity during periods of fluctuations in currency exchange rates in the past. As such, the Directors do not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems for the Group. Accordingly, the Group has not implemented any formal policies to tackle its foreign exchange exposure. During the Track Record Period, the Group did not enter into any arrangements to hedge its foreign exchange exposure.

DISCLOSURE UNDER RULES 13.13-19 OF THE LISTING RULES

Based on the total asset values of the Group as at 31 December 2001, 2002, 2003 and 30 April 2004, which were approximately HK$323.9 million, HK$605.3 million, HK$810.9 million and HK$940.2 million respectively (as referred to in the accountants' report set out in appendix I to this prospectus) and the expected market capitalisation of approximately HK$876.8 million (based on an Offer Price of HK$1.37 per Offer Share (being the mid-point of the indicative Offer Price range between HK$1.13 per Offer Share and HK$1.61 per Offer Share)), the following details of advances to entities as at 31 December 2001, 2002, 2003 and 30 April 2004 for the Track Record Period would have been discloseable under Rules 13.13-19 of the Listing Rules had the Company been listed on the Stock Exchange as at the respective date.

	As at 31 December			As at 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ghim Li Global Pte Ltd *(Note)*	65,193	99,179	78,916	88,829

Note: The advance with Ghim Li Global Pte Ltd, an Independent Third Party, represented trade receivables from customer as part of the ordinary business of the Group. The balance was unsecured, interest-free and repayable within 120 days. As at 31 July 2004, such trade receivables amounted to approximately HK$120.9 million.

The Directors have confirmed that save as disclosed above, there were no advances to entities, no financial assistance, and no guarantees to affiliated companies of the Company as at 31 December 2001, 2002, 2003 and 30 April 2004 which would have been discloseable under Rules 13.13-19 of the Listing Rules had the Company been listed on the Stock Exchange as at the respective date.

THE GROUP'S BALANCES WITH CERTAIN DIRECTORS

During the Track Record Period, the Group had amounts due to certain Directors as disclosed in appendix I to this prospectus. Information relating to such balances with the directors during the Track Record Period is set out below:

Directors	As at 31 December 2001	2002	2003	As at 30 April 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tai Chin Chun	37,394	31,666	–	–
Mr. Tai Chin Wen	3,840	23,038	–	–
	41,234	54,704	–	–

DISTRIBUTABLE RESERVE

The Company was incorporated in the Cayman Islands on 26 November 2003. There were no reserves available for distribution to the shareholders as at 30 April 2004 (being the date to which the latest audited financial statements of the Group were made up).

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 April 2004 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Directors and are based upon management's then-current judgement. Section 2, "Principal accounting policies", in the accountant's report set out in appendix I to this prospectus includes a summary of the principal accounting policies adopted by the Group. Critical accounting policies are those that are both most important to both of the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from management's current judgement. The Directors believe the following critical accounting policies involve the most significant judgements and estimates used in the preparation of financial information.

Depreciation of plant and machinery

It is the Group's accounting policy on the depreciation of the cost of plant and machinery using a straight-line method over the estimated useful life of ten years. The Group's accounting policy is adopted by making reference to the physical conditions of the plant and machinery and the industry's practice .

Provision for obsolete inventories

The Group's inventories are stated at the lower of cost (on a first-in, first-out basis) and net realisable value. The Group makes specific obsolescence provisions based on the review with reference to the age and conditions of the inventory. Specifically, obsolescence provisions will be made for finished and grey fabrics in stock over one year, if no specific delivery time has been determined and the delivery is unlikely in the short term. Inventories other than finished fabrics and grey fabrics will be reviewed annually for obsolescence provisions if appropriate.

Allowances for doubtful accounts

The Directors perform ongoing credit evaluations of the customers' financial condition and make allowances for doubtful accounts based on the outcome of the credit valuations. The Directors evaluate the collectibility of the Group's accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and the age of past due receivables. Unanticipated changes in the liquidity or financial position of the Group's customers may require additional allowances for doubtful accounts.

TRADING RECORD

The following table is a summary of the combined results of the Group for each of the three years ended 31 December 2003 and the four months ended 30 April 2004, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

		Year ended 31 December			Four months ended 30 April
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*1*	711,620	980,192	1,101,581	385,827
Cost of sales	*2*	(585,473)	(758,892)	(822,925)	(296,666)
Gross profit		126,147	221,300	278,656	89,161
Other revenue	*1*	1,708	6,477	3,193	1,481
Selling and distribution costs		(42,110)	(56,541)	(62,856)	(22,503)
Administrative expenses		(55,668)	(76,539)	(92,370)	(32,226)
Other operating income/(expenses), net		(2,200)	(2,912)	(1,132)	2,045
Profit from operating activities		27,877	91,785	125,491	37,958
Finance costs		(5,098)	(6,240)	(10,357)	(4,249)
Profit before tax		22,779	85,545	115,134	33,709
Tax		(1,768)	(3,998)	(18,778)	(5,413)
Net profit from ordinary activities attributable to shareholders		21,011	81,547	96,356	28,296
Earnings per Share	*3*				
– Basic		4.4 cents	17.0 cents	20.1 cents	5.9 cents
– Diluted		N/A	N/A	N/A	N/A

Notes:

1. An analysis of the Group's turnover and other revenue is as follows:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Sale of goods	703,405	971,340	1,090,190	383,289
Fee income from knitting and dyeing services	8,215	8,852	11,391	2,538
	711,620	980,192	1,101,581	385,827
Other revenue				
Fee income from freight handling services	680	5,937	2,027	1,000
Interest income	979	374	377	59
Others	49	166	789	422
	1,708	6,477	3,193	1,481

2. Prior to 2002, the Group has adopted a prudent fixed asset accounting policy of charging depreciation of plant and machinery using the straight-line method over their estimated useful life of three and one-third years. In 2002, in order to accurately reflect the pattern in which the Group consumes the economic benefits of plant and machinery and to align the Group's accounting policy with the industry's practice, the Directors have reassessed the estimated useful life of the Group's plant and machinery from three and one-third years to ten years. Accordingly, the depreciation expenses charged against the cost of sales in the prospective years was reduced, leading to the relative increase in the gross profit margin in the financial year ended 31 December 2002 and afterwards. Assuming the revised policy had been effective on 1 January 2001, the depreciation expenses charged against the cost of goods sold would have been reduced by approximately HK$19.4 million for the year ended 31 December 2001.

3. The calculation of the basic earnings per Share for the Track Record Period is based on the net profit for each of the year/period under the Track Record Period and assuming 480,000,000 Shares in issue and issuable, comprising 2,000,000 Shares in issue as at the date of this prospectus and 478,000,000 Shares to be issued pursuant to the Capitalisation Issue.

4. During the Track Record Period, the Group has not declared or paid any dividends to its then shareholders.

Differences in accounting standards

The Company is essentially an investment holding company. Substantially all of the Group's business operations are conducted through its subsidiaries in both Hong Kong and the PRC. The Company's ability to pay dividends is dependent upon the earnings of its subsidiaries and their distribution of funds to it, primarily in the form of dividends. The profit available for distribution for the subsidiaries established in the PRC is determined in accordance with the PRC GAAP which may differ from that arrived at by adopting the Hong Kong GAAP. There is no assurance that the distributable profits of the Group's PRC subsidiaries will be comparable to the reported accounting profits under the Hong Kong GAAP. Accordingly, the Company may not have sufficient distribution from its PRC subsidiaries to support the profit distribution to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group for the Track Record Period, all of which is set forth in the accountants' report set out in appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other financial records of the Group which the Directors have taken a reasonable amount of care to prepare. Investors should read the whole of the accountants' report and not rely merely on the financial synopsis contained in this section.

Overview

Over the three years ended 31 December 2003 and the four months ended 30 April 2004, the Group achieved continuous growth in turnover and profitability. Turnover grew from approximately HK$711.6 million in 2001 to approximately HK$1,101.6 million in 2003, representing an increase of approximately 54.8%. The Group further recorded a turnover of approximately HK$385.8 million for the four months ended 30 April 2004. The increases in turnover were mainly attributable to the increase in demand for the Group's basic series fabrics and the increase in sales to customers in Singapore and Taiwan.

Gross profit grew from approximately HK$126.1 million in 2001 to approximately HK$278.7 million in 2003, representing an increase of approximately 120.9%. The Group further recorded a gross profit of approximately HK$89.2 million for the four months ended 30 April 2004. The increases in gross profit in 2003 were mainly attributable to (i) the increase in turnover; (ii) the benefits of economies of scale and (iii) the change in accounting estimates in relation to depreciation. In the past, the Group practised the prudent fixed assets accounting policy of charging depreciation of plant and machinery using the straight-line method over their estimated useful lives of three and one-third years. In 2002, in order to accurately reflect the pattern in which the economic benefits of plant and machinery are consumed by the Group and to align the Group's accounting policy with the industrial practice, the Directors reassessed the estimated useful life of the Group's machinery and equipment from three and one-third years to ten years. Accordingly, the depreciation expenses charged against the cost of sales in the prospective years has been reduced, and this has led to the relative increase in the gross margin. Assuming the revised policy had been effective on 1 January 2001, the depreciation expenses charged against the cost of goods sold would have been reduced by approximately HK$19.4 million for the year ended 31 December 2001. Net profit grew from approximately HK$21.0 million in 2001 to approximately HK$96.4 million in 2003, representing an increase of approximately 358.6%. The Group further recorded a net profit of approximately HK$28.3 million for the four months ended 30 April 2004. The continuing growth in net profit during the Track Record Period resulted mainly from the increase in gross profit margin and the effect of economies of scale.

Set out below are analyses of the Group's combined turnover by product types and by geographical areas for the three years ended 31 December 2003 and the four months ended 30 April 2004:

Turnover by product types

	Year ended 31 December						Four months ended 30 April	
	2001		2002		2003		2004	
	HK$'million	*%*	*HK$'million*	*%*	*HK$'million*	*%*	*HK$'million*	*%*
Sale of fabrics								
Basic series	402.3	56.5	573.2	58.5	662.2	60.1	226.9	58.8
Functional series	217.7	30.6	307.5	31.4	300.7	27.3	106.9	27.8
Novelty series	83.4	11.7	90.6	9.2	127.3	11.6	49.5	12.8
	703.4	98.8	971.3	99.1	1,090.2	99.0	383.3	99.4
Fee income from knitting and dyeing services	8.2	1.2	8.9	0.9	11.4	1.0	2.5	0.6
Total	711.6	100	980.2	100	1,101.6	100	385.8	100

Turnover by geographical areas

	Year ended 31 December						Four months ended 30 April	
	2001		2002		2003		2004	
	HK$'million	*%*	*HK$'million*	*%*	*HK$'million*	*%*	*HK$'million*	*%*
Singapore	450.0	63.2	614.5	62.7	641.6	58.2	200.3	51.9
Hong Kong	79.3	11.2	116.7	11.9	125.4	11.4	36.8	9.5
Taiwan	54.8	7.7	103.7	10.6	177.0	16.1	89.5	23.2
Others	127.5	17.9	145.3	14.8	157.6	14.3	59.2	15.4
Total	711.6	100	980.2	100	1,101.6	100	385.8	100

Year ended 31 December 2001

For the year ended 31 December 2001, the Group recorded a turnover of approximately HK$711.6 million, of which approximately HK$402.3 million, HK$217.7 million, HK$83.4 million and HK$8.2 million were generated from the sale of basic series fabrics, functional series fabrics, novelty series fabrics, and the fee income from knitting and dyeing services, respectively. The gross profit for the year was approximately HK$126.1 million, or 17.7%. The Group recorded processing fees paid to other manufacturers of approximately HK$121.8 million. The Group achieved a net profit attributable to shareholders of approximately HK$21.0 million for the year and the net profit margin was approximately 3.0%.

Other revenue of approximately HK$1.7 million consisted mainly of shipping and handling income and interest income. Selling and distribution costs of approximately HK$42.1 million consisted mainly of shipping and delivery cost of approximately HK$40.2 million. Administrative expenses of approximately HK$55.7 million consisted mainly of salaries, entertainment expenses, travelling and accommodation, staff welfare, depreciation, bank charges, postage and courier, representing approximately 7.8% of the Group's turnover for the year.

During the year, the Group recorded approximately HK$1.2 million bad debt expenses as other operating expenses, representing approximately 0.2% of the Group's turnover for the year. Finance costs of approximately HK$5.1 million comprised mainly interest on short-term trust receipt loan and finance lease interest.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 69.2 days, 26.1 days and 25.0 days, respectively. As at 31 December 2001, the Group's gearing ratio was approximately 31.1%. The gearing ratio is defined as total debt divided by total assets and then multiplied by 100%. The Group's strategy was to finance the expansion by utilizing external borrowing.

Year ended 31 December 2002

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK$980.2 million, representing an increase of approximately 37.7% in comparison to the previous year. The sale of basic series fabrics, functional series fabrics, novelty series fabrics, and the fee income from knitting and dyeing services accounted for approximately HK$573.2 million, HK$307.5 million, HK90.6 million and HK$8.9 million of the total turnover, respectively. The sale of basic series fabrics, functional series fabrics and novelty series fabrics recorded significant growth by approximately 42.5%, 41.2% and 8.6% respectively. This increase was mainly attributable to (i) the overall increase in demand for the Group's products from its existing customers in Singapore and Taiwan; and (ii) the significant increase in the knitting and dyeing capacities of the Group resulting from the acquisition of additional production equipment during the year (2001: 12.8 and 37.1 million pounds, 2002: 33.1 and 71.6 million pounds, respectively).

The gross profit for the year was about HK$221.3 million, representing an increase of approximately 75.4% in comparison to the previous year. The gross profit margin increased from approximately 17.7% to approximately 22.6% in 2002. This increase was mainly attributable to (i) benefits of the economies of scale; and (ii) the reduction in manufacturing overhead as a result of the change of accounting estimates for the depreciation expenses of production equipment. During the year, the Directors reassessed the estimated useful life of the Group's production equipment from 3.3 years to ten years in order to accurately reflect the pattern in which the economic benefits of plant and machinery are consumed by the Group and to align with the industry's practice in Hong Kong. The revised policy has been applied prospectively to financial years ended subsequent to 2001. Accordingly, the Group has recorded a relative reduction of depreciation charges on its plant and machinery in the cost of sales amounted to HK$38.5 million in 2002. Assuming the revised policy had been effective on 1 January 2001, the depreciation expenses charged against the cost of goods sold would have been reduced by approximately HK$19.4 million for the year ended 31 December 2001.

The Group achieved a profit before tax of approximately HK$85.5 million, representing an increase of approximately 275.5% from the prior year. The profit before tax margin increased from approximately 3.2% in 2001 to 8.7% in 2002. This increase was principally attributable to the increase in gross profit margin for the year. The Group achieved a profit attributable to the shareholders of approximately HK$81.5 million, representing an increase of approximately 288.1%. The net profit margin increased from 3.0% in 2001 to 8.3 % in 2002. The Group's profit before tax margin is comparable to its net profit margin because Panyu KH Textile, the Group's principal operating subsidiary in the PRC, was still eligible for full exemption from the PRC income tax in 2002.

Other revenue of approximately HK$6.5 million comprised mainly shipping and handling charges earned by KH Shipping of approximately HK$5.9 million. Selling and distribution costs of approximately HK$56.5 million comprised mainly shipping and delivery cost of approximately HK$51.2 million, representing an increase of 27.2% in comparison to the previous year. The increase in shipping and delivery cost was less than the increase in sales during the year because the Group has better utilised freight space by making mass deliveries. Administrative expenses of approximately HK$76.5 million comprised mainly salaries, entertainment expenses, travelling and accommodation, staff welfare, depreciation, bank charges, postage and courier, representing an increase of 37.5% in comparison to the previous year, which was in line with the increase in turnover. Additional staff and administrative support were deployed to cope with the expansion of the Group. The number of employees of the Group has been increased from 648 as at 31 December 2001 to 1,030 as at 31 December 2002.

During the year, the Group recorded provision for doubtful debts and bad debts written off of approximately HK$4.6 million in aggregate, which represented only approximately 0.5% of the Group's turnover for the year. Finance costs of approximately HK$6.2 million comprised mainly interest on short-term trust receipt loan, term loan from bank and finance lease interest.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 72.7 days, 34.1 days and 48.5 days, respectively. Increase in the inventory turnover period from 26.1 days to 34.1 in 2002 was mainly attributable to the pile up of inventory in anticipation of the increase in production demand in the coming period. The creditors' turnover period increased from 25.0 days to 48.5 days due to better terms offered by the Group's suppliers resulting from bulk purchase of yarns. As at 31 December 2002, the Group's gearing ratio was approximately 36.3%. Increase in gearing ratio from 2001 was due to the increase in borrowing for the purchases of plant and machinery during the year.

Year ended 31 December 2003

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK$1,101.6 million, representing an increase of approximately 12.4% in comparison to the previous year. The sale of basic series fabrics, functional series fabrics, novelty series fabrics, and the fee income from knitting and dyeing services accounted for approximately HK$662.2 million, HK$300.7 million, HK127.3 million and HK$11.4 million of the total turnover, respectively. The sale of basic series fabrics and novelty series fabrics recorded growth by about 15.5% and 40.5% respectively, a growth mainly attributable to the overall increase in demand for the Group's products from existing Singaporean and Taiwanese customers. The overall turnover growth rate has been slowed down in comparison with prior years because of the limitations of the Group's capacity as the Group was in the process of expanding.

The gross profit for the year was approximately HK$278.7 million, representing an increase of approximately 25.9% in comparison to the previous year. The gross profit margin ratio increased from approximately 22.6% to approximately 25.3% in 2003, and was mainly attributable to (i) the reduction in manufacturing overhead as a result of mass production; and (ii) less processing fees were paid to other manufacturers. The processing fees paid to other manufacturers were decreased from approximately HK$122.8 million in 2002 to approximately HK$102.1 million in 2003. With a view to enhancing the utilisation rate and production efficiency, fewer subcontracting services were outsourced to outsiders as the Group had a larger capacity to deal with what it could not handle in the past.

The Group achieved a profit before tax of approximately HK$115.1 million, representing an increase of approximately 34.6%. The profit before tax margin increased from approximately 8.7% in 2002 to approximately 10.5% in 2003. The increase was principally attributable to the increase in gross profit margin for the year. The Group achieved a net profit attributable to the shareholders of approximately HK$96.4 million, representing an increase of approximately 18.2%. The net profit margin increased from approximately 8.3% in 2002 to 8.7% in 2003. As the full profit tax exemption previously enjoyed by the Group's principal operating subsidiary in PRC, Panyu KH Textile, expired in 2003, the preferential PRC income tax rate applicable to Panyu KH Textile for the year ended 31 December 2003 was 12%.

Other revenue of approximately HK$3.2 million comprised mainly shipping and handling charges earned by KH Shipping of approximately HK$2.0 million. Selling and distribution costs of approximately HK$62.9 million comprised mainly shipping and delivery cost of HK$56.6 million, representing an increase of 10.6% in comparison to the previous year. Administrative expenses of approximately HK$92.4 million comprised mainly salaries, entertainment expenses, travelling and accommodation, staff welfare, bank charge, depreciation and postage and courier, which increased by 20.7% compared with 2002. The increase was mainly due to the recruitment of additional staff and other administrative supports required by the Group's continuous expansion. In particular, more marketing and communication efforts were spent on customer liaison and sales solicitation. The number of employees of the Group has been increased from 1,030 as at 31 December 2002 to 1,576 as at 31 December 2003.

During the year, the Group recorded provision for doubtful debts and bad debts written off of approximately HK$3.1 million in aggregate, which represented only approximately 0.3% of the Group's turnover for the year. As at the Latest Practicable Date, all of the accounts and bills receivables as at 31 December 2003 have already been fully settled. Therefore, the Directors consider that no additional provision for doubtful debt is required. Finance costs of approximately HK$10.4 million comprised mainly interest on short-term trust receipt loan, term loan from bank and finance lease interest. Finance costs increased by 66.0% as compared with last year due mainly to the increase in working capital requirement as a result of the increase in the Group's operations and the increase in bank financing for the acquisition of production equipment.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year were 55.3 days, 78.3 days and 55.0 days, respectively. The debtors' turnover period decreased from 72.7 days to 55.3 days in 2003 was due to the discounting of bills receivable to financial institutions. Increase in the inventory turnover period from 34.1 days to 78.3 days was attributable to the increase in inventory in anticipation of the increase in production demand and the raw yarn prices in the coming period. In addition, given the increase in yarn prices since September 2003, the Group increased its stock level with a view to minimizing disturbance to production. The creditors' turnover period further increased slightly from 48.5 days to 55.0 days due to the bulk purchase effect. As the purchase volume and amount increased, the suppliers were usually more flexible in the credit period offered. As at 31 December 2003, the Group's gearing ratio was approximately 33.4%. The improvement of gearing ratio from 2002 was principally due to the increase in deployment of total assets by the Group.

As at 31 December 2003, the Group recorded long-term loans of approximately HK$104.8 million while the Group recorded a corresponding amount of approximately HK$2.6 million in 2002. During the year, the Group has made significant addition of plant and machinery and construction in progress. The acquisition of such fixed assets were principally financed by way of bank borrowings. The Group's long-term bank loans comprised loans drawn down by Panyu KH Textile which were not secured by any assets of the Group but by corporate guarantees provided by other members within the Group.

Four months ended 30 April 2004

For the four months ended 30 April 2004, the Group recorded a turnover of approximately HK$385.8 million, representing an increase of approximately 13.4% in comparison to the unaudited turnover of approximately HK$340.1 million in the previous corresponding period (the "Corresponding Period") for the four months ended 30 April 2003. The sale of basic series fabrics, functional series fabrics, novelty series fabrics, and the fee income from knitting and dyeing services accounted for approximately HK$226.9 million, HK$106.9 million, HK$49.5 million and HK$2.5 million of the total turnover, respectively. The increase in turnover was mainly attributable to the increase in demand for the Group's basic series fabrics and the increase in sales to customers in Singapore and Taiwan.

The gross profit for the period was approximately HK$89.2 million, representing an increase of approximately 4.9% in comparison to the unaudited gross profit of approximately HK$85.0 million in the Corresponding Period. As stated under the paragraph headed "Purchases" under the section headed "Business" of this prospectus, the Group's average purchasing cost of cotton yarn has increased by approximately 19.3% (from approximately HK$8.43 per pound for the year ended 31 December 2003 to approximately HK$10.06 per pound for the four months ended 30 April 2004). Since part of the increase in yarn cost could be offset by corresponding increase in selling price and improvement of operating efficiency by reducing subcontracting production process, the gross profit margin ratio for this period decreased slightly to approximately 23.1%.

The Group achieved a profit before tax of approximately HK$33.7 million, representing a decrease of approximately 8.9% in comparison to the unaudited results of HK$37.0 million in the Corresponding Period. The profit before tax margin for this period decreased slightly to approximately 8.7%. The decrease was principally attributable to the decrease in gross profit margin and increase in the selling and administrative expenses coupled with the increase in finance charge of the Group for the period. The Group achieved a net profit attributable to the shareholders of approximately HK$28.3 million, representing a decrease of approximately 9.3% in comparison to the unaudited net profit of HK$31.2 million in the Corresponding Period. The net profit margin for this period has decreased to approximately 7.3% in comparison to the net profit margin of approximately 9.2% in the Corresponding Period. The decrease in net profit was in line with the decrease in the profit before tax.

Other revenue of approximately HK$1.5 million comprised mainly shipping and handling charges earned by KH Shipping of approximately HK$1.0 million. Selling and distribution costs of approximately HK$22.5 million comprised mainly shipping and delivery cost of HK$20.3 million, representing an increase of approximately 23.6% in comparison to the Corresponding Period. The increase in selling and distribution costs was principally due to more distant delivery orders and the rising freight cost. Administrative expenses of approximately HK$32.2 million comprised mainly salaries, entertainment expenses, travelling and accommodation, staff welfare, bank charges, depreciation and postage and courier, which have increased by 16.2% compared with the Corresponding Period. The increase was basically in line with the increase in turnover and partly due to the fact that more marketing and communication efforts were spent on customer liaison and sales solicitation. During the period, the Group has not recorded any provision for doubtful debts and bad debts written off. Finance costs of approximately HK$4.2 million comprised mainly interest on short-term trust receipt loan, term loan from bank and finance lease interest. Finance costs increased by 44.8% as compared with corresponding period mainly due to the increase in working capital requirement as a result of the increase in the Group's operations and the increase in bank financing for the acquisition of production equipment, particularly the yarn dyeing machinery.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the period were 60.0 days, 91.4 days and 58.9 days respectively. Debtors' turnover period increased to 60.0 days for this period, which was principally due to the seasonality factor that the Group's peak season is usually from March to August every year. The Group recorded a turnover of approximately HK$66.5 million and HK$158.4 million for the months of December 2003 and April 2004 respectively. Although approximately HK$130.5 million of the Group's accounts and bills receivables have been discounted as of 30 April 2004, the aforesaid seasonal impact has outweighed the offsetting effect arising from the discounting of the Group's accounts and bills receivables. Increase in the inventory turnover period to 91.4 days was attributable to the increase in inventory in anticipation of the increase in production demand and the movement of the raw yarn prices. Up to the Latest Practicable Date, approximately 42.6% of the inventory aged over 180 days as at 30 April 2004 has been consumed. As advised by the Directors, the remaining inventory mainly comprised raw yarn, which can be stored for years without the problem of obsolescence. These yarns are needed to be maintained in preparation for urgent orders and fabric samples. Given the fact that the Group manufactures a wide varieties of fabric products, it is essential to keep different types of raw yarn on hand. The creditors' turnover period increased slightly to 58.9 days principally due to the bulk purchase effect. As the purchase volume and amount increased, the suppliers were usually more flexible in the credit period offered. As at 30 April 2004, the Group's gearing ratio was approximately 36.0%.

As at 30 April 2004, the Group's long-term loans maintained at approximately HK$104.8 million. Long-term finance lease payable was increased from approximately HK$32.0 million as at 31 December 2003 to approximately HK$42.0 million as at 30 April 2004 because the Group has made further additions of plant and machinery. The acquisition of such fixed assets were principally financed by way of finance leases. As at 30 April 2004, the Group's long-term bank loans comprised loans drawn down by Panyu KH Textile which were not secured by any assets of the Group but by corporate guarantees provided by other members within the Group.

TAXATION

Hong Kong profits tax has been provided at the applicable tax rate of the assessable year/period on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Kam Sing was newly incorporated in the PRC and was therefore not subject to any corporate income tax in the PRC during the Track Record Period. According to income tax law of the PRC for FIEs, Panyu KH Textile has been subject to corporate income tax rate of 24%, which is the preferential tax rate applicable to enterprises operating in one of the coastal economic development areas of the PRC. Panyu KH Textile is exempt from the income tax for the two years starting from its first accumulative profit-making year of operations and thereafter is eligible for 50% relief from the income tax for the following three years. The first full exemption financial year of Panyu KH Textile was the year ended 31 December 2001. Therefore, the preferential PRC income tax rate applicable to Panyu KH Textile for the year ended 31 December 2003 and the two years ending 31 December 2004 and 2005 is 12%.

The effective tax rates of the Group during the Track Record Period were 7.8%, 4.7%, 16.3% and 16.1% respectively, representing the only provision for Hong Kong profit tax for the financial year 2001 and 2002 and the provision for the Group's assessable profits arising in Hong Kong, Singapore and the PRC for the financial year 2003 and the four months ended 30 April 2004. The increase in effective tax rate since 2003 was principally due to the expiry of the full profit tax exemption of Panyu KH Textile. Please refer to the accountants' report set out in appendix I to this prospectus for the reconciliation of the Group's taxation.

DIVIDEND POLICY

No dividends have been paid or declared by the Company since the date of its incorporation. During the Track Record Period, the Group has not declared any dividends. The Directors consider that, in general, the amount of future dividends to be declared by the Group will depend on the Group's results, working capital, cash positions, capital requirements and other factors as may be deemed relevant at such time by the Directors. It is the present intention of the Directors that, upon the listing of the Shares, the Company will declare, for each year, dividends to the Shareholders in such amount no less than 25% of the audited consolidated profit after tax of the Group. The dividends will be paid by way of interim and/or final dividends. The Directors consider that the Company's dividend policy mentioned above will not materially affect the Company's working capital position in the coming years.

PROFIT FORECAST

The Directors estimate that, on the basis of the assumptions set out in appendix II to this prospectus and in the absence of unforeseen circumstances, the Group's profit after tax but before extraordinary items for the year ending 31 December 2004 will amount to not less than HK$103 million. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004.

On the basis of the above profit forecast and the weighted average number of 523,715,847 Shares in issue, the forecast earnings per Share on a weighted average basis will be approximately HK19.7 cents, representing a weighted average price-to-earnings multiple of approximately 5.7 times based on an Offer Price of HK$1.13 or approximately 8.2 times based on an Offer Price of HK$1.61.

On the basis of the above profit forecast and on the assumption that the Company has been listed since 1 January 2004 and no interest income has been derived from the net proceeds received therefrom, the forecast earnings per Share on a pro forma fully-diluted basis would be approximately HK16.1 cents, representing a pro forma fully-diluted price-to-earnings multiple of approximately 7.0 times based on an Offer Price of HK$1.13 or approximately 10.0 times based on an Offer Price of HK$1.61. These estimates do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

The texts of the letters from Ernst & Young, the reporting accountants of the Company, and the Sponsor respectively in respect of the profit forecast as mentioned above are set out in appendix II to this prospectus.

PROPERTY INTERESTS AND OTHER ASSETS

Property interests owned by the Group in the PRC

The Group's production facilities in Panyu comprise three adjacent zones, namely Zones A, B and C, with an aggregate site area of approximately 140,303.4 sq.m., the land use rights of which were granted for a term of 50 years with the latest expiry date on 13 April 2053.

Zone A principally consists of a major factory building with an aggregate gross floor area of approximately 7,147 sq.m., which has been granted with the relevant building ownership certificate. Three other factory buildings are erected in Zone A, with a total gross floor area of approximately 3,795 sq.m.. All three buildings were completed before 1997 and have not yet been granted with the relevant licences/title certificates. These three factory buildings are currently used by the Group for general storage purposes. Since the relevant documents (including land use planning for construction works permit, construction project and planning permit, commencement of construction works permit) cannot be located by the Group and it is expected that it will take a significant amount of time and effort to reissue such documents required for the application of the title certificates for these buildings, the Directors consider that the title certificates will not be granted by the relevant land and house office in the foreseeable future. Moreover, the Group is undertaking the development of a six-storey factory building . The Group has applied for relevant construction permits but these have not yet been issued. As advised by the PRC legal adviser, the relevant government authorities may request the Group to take rectification steps by demolishing the buildings or remodeling the structures of the buildings or forfeiture of such buildings and certain penalties may be imposed by the relevant government authorities. The estimated gross floor area of this building is approximately 5,151 sq.m., which accounts for only approximately 3.3% of the Group's total gross floor area of the completed properties held and properties under development by the Group.

Zone B consists of four factory buildings, three dormitory buildings and one warehouse with an aggregate gross floor area of approximately 59,406.2 sq.m. The Group has obtained certificates for building ownership for all buildings erected on the land in Zone B.

In Zone C, the Group is currently undertaking the development of two factory buildings and two dormitory buildings with permitted gross floor areas of approximately 52,535 sq.m. and 14,057 sq.m. respectively. The Group has also recently set up a power and steam generating plant, a sewage treatment plant and a water treatment plant in this zone, the aggregate gross floor area of which is approximately 14,139.30 sq.m.. As the construction of these buildings have not been fully completed, the Group has not applied for any title certificates yet but examination on these buildings are conducted underway by the relevant PRC departments. The Group has obtained the relevant construction permits for the development of these buildings, details of which have been disclosed in the property valuation report in appendix IV to the Prospectus. Moreover, the Group has been granted land use rights for terms of 50 years, with expiry dates ranging from 24 April 2051 to 13 April 2053 for this zone. According to the legal adviser to the Company as to PRC laws, the Group should apply for the relevant title certificates for the Buildings within three months upon completion of such construction work. The relevant land and house office (國土資源及房屋管理局) will then review the application and examine the relevant documents as submitted by the Group. It is expected that the construction work of these buildings will be fully completed in the third or fourth quarter of 2004 and the Group will arrange to apply for the relevant title certificates at that point. Based on the aforesaid, upon completion of construction, being examined and considered up to the standard by the relevant PRC departments (including but not limited to the fire department, city planning department and environmental department), the Directors and the legal adviser to the Company as to PRC laws consider that there should not be any material obstacles in obtaining such title certificates.

Property interests owned by the Group in Hong Kong

The Group owns four office units in Units 5-8 on 8th Floor, Lucida Industrial Building, Nos. 43-47 Wang Lung Street, Hong Kong, which have been occupied by the Group as the Group's headquarters to coordinate all its management, sales, marketing, finance and administration operations.

Property interests leased by the Group in Hong Kong

Currently, the Group leases an office unit in Unit 4, 8th Floor, Lucida Industrial Building, Nos. 43-47 Wang Lung Street, Hong Kong for administrative functions. This property is leased from an Independent Third Party commencing from 1 August 2004 to 31 July 2007 at a monthly rent of HK$4,950. The Group also leases a warehouse in Unit C, 3rd Floor, Watson Building, Nos 204-210 Texaco Road, Tsuen Wan, New Territories, Hong Kong, from an Independent Third Party commencing 1 April 2004 subject to a termination clause with one month notice at a monthly rent of HK$10,000.

In addition, the Group also leases five office units in Unit 9, 8th Floor and Units 1-3, 9, 12th Floor of Lucida Industrial Building, Nos. 43-47 Wang Lung Street, Hong Kong, from Mr. Tai Chin Chun and Mr. Tai Chin Wen for administrative functions. These properties are leased for the period commencing 1 April 2004 and expiring on 31 March 2005 at a total monthly rent of HK$20,000. In the opinion of the Directors and the valuers, these transactions have been entered into by the Group on normal commercial terms and at arm's length, in the usual and ordinary course of business and are fair and reasonable so far as the shareholders of the Company, taken as a whole, are concerned.

Furthermore, the Group leases two residential units in Flats A & B on 21st Floor, Tower 9, Parc Royale, No. 8 Hin Tai Street, Shatin, New Territories, Hong Kong, from Goldwille Investments Limited, an associated company of Mr. Tai Chin Chun and Ms. Cheung So Wan, as the Directors' living quarters. These properties are leased from 1 April 2004 to 31 March 2005 at a monthly rent of HK$26,000. In the opinion of the Directors and the valuers, these transactions have been entered into by the Group on normal commercial terms and at arm's length, in the usual and ordinary course of business and are fair and reasonable so far as the shareholders of the Company, taken as a whole, are concerned.

Property interests leased by the Group in Singapore

The Group leases Unit 05-03 on 5th Floor, HB Centre, No. 12 Tannery Road, Singapore from an Independent Third Party for its overseas office in Singapore. This property is leased from 1 January 2003 to 31 December 2004 at a monthly rental of S$1,319.55.

The Group also leases a residential unit in Block 911 Toa Payoh Lorong 1 No. 17-01 Oleander Tower, Singapore from an Independent Third Party for the living quarters of staff in Singapore. This property is leased from 15 December 2003 to 14 December 2005 at a monthly rent of S$2,500.

Property valuation

The property interests of the Group have been valued at HK$76,575,000 as at 31 July 2004 by Sallmanns (Far East) Limited, an independent property valuer. The text of the letter, with a summary of valuations, and a valuation certificate of each of these property interests prepared by Sallmanns (Far East) Limited are set out in appendix IV to this prospectus.

PRO FORMA FINANCIAL INFORMATION

Earnings per Share

For the year ending 31 December 2004

Forecast profit after tax but before extraordinary items	HK$103 million
Pro forma fully diluted forecast earnings per Share *(Note)*	HK16.1 cents

Note: The calculation of forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit after tax but before extraordinary items for the year ending 31 December 2004 and on the assumption that the Company has been listed since 1 January 2004 and that a total number of 640,000,000 Shares were in issue during the year ending 31 December 2004. The forecast profit after tax but before extraordinary items for the year ending 31 December 2004 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received on 1 January 2004.

Pro forma adjusted net tangible assets

The following is a statement of pro forma adjusted net tangible assets of the Group which is based on the audited combined net tangible assets of the Group as at 30 April 2004 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and is adjusted as follows:

	Audited net tangible assets as at 30 April 2004	**Estimated net proceeds of the Share Offer**	**Pro forma adjusted net tangible assets**	**Pro forma adjusted net tangible asset value per Share**
		(Note 1)		*(Note 2)*
	HK$'000	*HK$'000*	*HK$'000*	
Based on an Offer Price of HK$1.13 per Share	340,415	165,580	505,995	HK$0.79
Based on an Offer Price of HK$1.61 per Share	340,415	240,460	580,875	HK$0.91

Notes:

1. The estimated net proceeds from the Share Offer is based on the Offer Price of HK$1.13 or HK$1.61 per Share, after deduction of the underwriting fees and related expenses payable by the Company, and takes no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or Shares which may be allotted and issued or purchased by the Company pursuant to the general mandate for the allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in appendix VI to this prospectus.

2. The pro forma adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 640,000,000 Shares in issue immediately following completion of the Share Offer.

3. The surplus of approximately HK$27,846,000 arising from the revaluation performed on an open market value basis by Sallmanns (Far East) Limited, an independent property valuer on the Group's leasehold land and buildings, will not be incorporated into the Group's financial statements as the Group accounts for its leasehold land and buildings at cost.

   The revaluation surplus of approximately HK$27,846,000 would have led to an increase in depreciation charge of approximately HK$1,392,000 per annum if the revaluation surplus was incorporated into the Group's financial statements during the Track Record Period.

The purpose of this statement of pro forma adjusted net tangible assets is to illustrate the net tangible assets of the Group as a result of the listing of the Company based on the audited combined net tangible assets of the Group as at 30 April 2004. Please note that the above pro forma statement of adjusted net tangible assets is prepared for illustrative purposes only, and that because of its nature, it may not give a true picture of the Company's financial position or results. Please refer to appendix III to this prospectus for the opinion of the reporting accountants in relation to the pro forma earnings per Share and the pro forma adjusted net tangible assets.

FUTURE PLANS AND PROSPECTS

Because of its stringent quality control procedures, the Group did not have any material sales returns due to defects from its customers during the Track Record Period and has established itself as a reliable manufacturer of quality knitted fabrics. The Directors believe that the market demand for knitted fabrics will continue to grow and the Directors also anticipate that the worldwide quota on textile products will gradually be removed upon the PRC's entry into the WTO. In light of this favourable business environment, the Group's objective is to become a leading knitted fabric manufacturer in South East Asia, offering a wide series of quality knitted fabric products in different markets.

In order to maintain the Group's market share and to tap market potential, the Group's primary plan is to expand its production scale. The Directors believe that maintaining sizable production facilities will reduce production unit cost, shorten delivery time and provide better quality services to the customers. To cope with the expected growth in demand of the textile products mentioned above, the Group has formulated a series of development plans as set out below.

Further vertical integration

Fabric dyeing involves colouring on grey fabrics whereas yarn dyeing offers the flexibility of knitting fabrics with more complicated colour patterns. During the Track Record Period, the Group purchased raw yarns from independent suppliers and outsourced the yarn dyeing process to other manufacturers. As at the Latest Practicable Date, the Group has invested approximately HK$80 million in setting up its yarn dyeing facilities. It is expected that this yarn dyeing operation will commence commercial operation in late September 2004, the annual production capacity of which is expected to be approximately 30 million pounds. The Group intends to apply approximately HK$15 million from the net proceeds of the Share Offer for the purchase of additional yarn dyeing machinery. The Directors believe that the establishment of the new yarn dyeing operation will benefit the Group by reducing production unit cost, improving quality control, and reducing production lead time. Moreover, the newly established yarn dyeing facilities will enable the Group to offer a wider product portfolio range to its customers.

Apart from the yarn dyeing operation, the Directors may in the future consider other up-stream vertical integration alternatives including, but not limited to, the spinning of cotton yarn.

Expansion of the production capacity

The Directors are of the view that customers usually prefer or even demand shorter delivery time. Therefore, the Group intends to expand its production capacity by constructing additional factory premises and purchasing new machinery so that it will be able to accept more orders and reduce production lead time. The Group intends to apply approximately HK$35 million for the acquisition of 175 additional sets of cylinder knitting machines, approximately

HK$31 million for the acquisition of approximately 68 additional fabric dyeing tanks, and approximately HK$9 million for the acquisition of other processing facilities including setting machines. Upon completion of this expansion, it is expected that each of the Group's annual fabric dyeing and knitting capacities will increase to approximately 120 million pounds by the end of 2005. Since the purchase cost of the knitting machines is in general lower than that of the dyeing facilities, the Directors consider the estimated amount of HK$35 million to be sufficient for the knitting capacity to increase to a level comparable to the Group's increased dyeing capacity. To house these additional production facilities, a new factory complex will be required. The Directors plan to apply approximately HK$25 million for the construction of a factory complex with a total floor area of over 22,000 sq.m. on the Group's existing land. The construction is expected to commence in October 2004 and complete in around the second quarter of 2005.

Installation of an additional power and steam generator

Besides raw materials like yarn and dyeing materials, electricity and steam supplies are also key elements to the Group's production. In order to process a large amount of materials under a tight production schedule, the Group's machinery has to be run virtually round-the-clock. Therefore, it is crucial for the Group to have steady supply of electricity and steam. In the past, the Group has relied on the electricity supply of the local electricity network and has initially set up a 7,000 KW power and steam generator designed specifically to supply the Group's electricity and steam consumption needs. In consideration of the expected increase in future production capacity, the Directors intend to install a 18,000 KW additional power and steam generator, which is expected to start operation in mid-2005.

Market expansion

With the liberalisation and globalisation of the garment industry, the Directors believe that the North American sector of the industry will continue to be promising and that the PRC market will offer tremendous development potential. The Group will continue to consolidate relationships with existing customers in Singapore, Taiwan and Hong Kong and has identified Korea and Europe as its next strategic locations for expansion. The Group has established Kam Sing, a wholly-owned subsidiary, with a view to developing the domestic knitted fabric market in the PRC. The Group plans to further expand its distribution network by establishing sales points in these identified locations and by strengthening its sales and marketing team.

USE OF PROCEEDS

Based on an Offer Price of HK$1.37 per Offer Share (being the mid-point of the indicative Offer Price range between HK$1.13 per Offer Share and HK$1.61 per Offer Share), the gross proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised, are estimated to be approximately HK$219 million. The net proceeds of the Share Offer after deducting the expenses payable by the Company, assuming that the Over-allotment

Option is not exercised, are estimated to be approximately HK$203 million. At present, the Directors intend to apply the net proceeds to the following purposes:

- approximately HK$100 million for the expansion of production capacity, of which approximately HK$35 million for the acquisition of additional knitting facilities, approximately HK$31 million for the acquisition of additional fabric dyeing tanks, approximately HK$9 million for the acquisition of processing facilities, and approximately HK$25 million for the construction of factory buildings for such expansion;

- approximately HK$50 million for the installation of an additional power and steam generator;

- approximately HK$15 million for the purchase of additional machinery required for the yarn dyeing operation;

- approximately HK$12 million for the expansion of the marketing distribution network;

- approximately HK$10 million for product development; and

- the balance of approximately HK$16 million to be used as additional general working capital of the Group.

In the event that the Offer Price is fixed at HK$1.61 per Offer Share, being the highest point of the indicative Offer Price range, the net proceeds will be increased by approximately HK$37 million. The Directors intend to apply approximately 60% of such additional net proceeds for the purchase of additional machinery for the Group's yarn dyeing operation, approximately 20% as additional funds to finance the installation of the power and steam generator, and the remaining 20% as additional general working capital of the Group. In the event that the Offer Price is fixed at HK$1.13 per Offer Share, being the lowest point of the indicative Offer Price range, the net proceeds will be reduced by approximately HK$37 million. In such circumstances, the Directors intend to reduce the application of the proceeds for the installation of an additional power and steam generator, the expansion of the marketing distributions network, product development and general working capital by approximately HK$8 million, HK$8 million, HK$8 million and HK$13 million respectively.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$1.37 per Offer Share (being the mid-point of the indicative Offer Price range between HK$1.13 per Offer Share and HK$1.61 per Offer Share) the net proceeds will be increased by approximately HK$32 million (the "Additional Proceeds"). The Directors intend to apply approximately 60% of the Additional Proceeds for the purchase of additional machinery for the Group's yarn dyeing operations. Moreover, the Directors intend to apply approximately 20% of the Additional Proceeds as additional funds to finance the installation of the power and steam generator, and the remaining 20% of the Additional Proceeds as additional general working capital of the Group.

To the extent that any part of the Group's business plans cannot be materialised or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or new projects of the Group and/or to hold such funds as short-term interest-bearing deposits with banks and authorized financial institutions in Hong Kong for so long as the Directors consider it to be in the interest of the Group. In the event that there are any material changes or modifications to the use of net proceeds, the Company will make an appropriate announcement.

UNDERWRITERS

Placing Underwriters

Tai Fook Securities
SBI E2-Capital Securities Limited
Goldbond Securities Limited
CCB International Capital Limited
FB Gemini Securities Limited
Grand Vinco Capital Limited
Kingsway Financial Services Group Limited
Luen Fat Securities Company Limited
Pacific Foundation Securities Limited
Phillip Securities (HK) Ltd.
Phoenix Capital Securities Limited
Standard Bank Asia Limited

Public Offer Underwriters

Tai Fook Securities
SBI E2-Capital Securities Limited
Goldbond Securities Limited
CCB International Capital Limited
FB Gemini Securities Limited
Grand Vinco Capital Limited
Kingsway Financial Services Group Limited
Luen Fat Securities Company Limited
Pacific Foundation Securities Limited
Phillip Securities (HK) Ltd.
Phoenix Capital Securities Limited
Standard Bank Asia Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the related application forms, and is offering the Placing Shares for subscription by the professional, institutional and private investors on and subject to the terms and conditions of the Placing, in each case at the Offer Price. Subject to, among other things, the approval of the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (and such listing and permission not subsequently being revoked prior to the date on which dealings in the Shares first commence on the Stock Exchange) being granted by the Listing Committee of the Stock Exchange on or before 23 September 2004 or such later date as the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may in its absolute discretion determine, the Public Offer Underwriters have agreed to subscribe or procure subscribers, on the terms and conditions of this prospectus and the application forms relating hereto, for the Public Offer Shares now being offered for subscription but not taken up under the Public Offer, and the Placing Underwriters have severally agreed to subscribe or procure subscribers, on and subject to the terms and conditions of the Placing, for the Placing Shares.

Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriters) are entitled to terminate the Underwriting Agreement by giving written notice before 6:00 p.m. (Hong Kong time) on one business day immediately preceding the Listing Date (which is expected to be 23 September 2004) to the Company if certain events, including the following events, shall occur prior to such time:

(a) there comes to the notice of any of the Sponsor, the Lead Manager and the other Underwriters that:

(i) any statement contained in this prospectus or the application forms relating thereto or the documents for the Share Offer was when such document was issued, or has since become, untrue, incorrect or misleading in any material respect in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or

(ii) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or the documents for the Share Offer, constitute a material omission therefrom in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or

(iii) any of the representations, warranties and undertakings contained in the Underwriting Agreement is untrue or inaccurate in any respect which the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) in its sole and absolute opinion considers to be material in the context of the Share Offer; or

(iv) any event, act or omission which gives or is likely to give rise to a material liability of any of the Company, the executive Directors and the substantial Shareholders pursuant to the indemnities given under the Underwriting Agreement; or

(v) any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, the major shareholders under the Underwriting Agreement has not been complied with or observed by any of them in any respect considered by the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) to be material; or

(vi) any information, matter or event which in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may lead to a material adverse change or prospective material adverse charge in the business or in the financial or trading position or prospects of the Group taken as a whole, or

(b) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change in existing laws or regulations of any nature whatsoever or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

(ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) in local, national, or international financial, political, military, industrial, fiscal or economic conditions or prospects; or

(iii) any change in the conditions of the local, national or international securities or commodities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or

(v) a change or development involving a change in taxation or exchange control (or the implementation of exchange control) in Hong Kong, the Cayman Islands, the BVI, Singapore, the PRC or other relevant jurisdictions in which the Group operates; or

(vi) 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, acts of terrorism, accident, interruption or delay in transportation, economic sanctions, public disorder, riot and epidemic; or

(vii) any litigation or claim brought by any third party against any member of the Group which will or is reasonable likely to result in the Group incurring liability that is material to the Group as a whole; or

(viii) the imposition of economic sanctions relating to the business of the Group, in whatever form, directly or indirectly, by, or for the U.S. or by the EU (or any member thereof) on the PRC; or

(ix) 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 in 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 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,

and which, in each case, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters):

(aa) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group (taken as a whole) or to any present or prospective shareholders of the Company in his capacity as such; or

(bb) has or will have or is likely to have a material adverse effect on the success of the Placing and/or the Public Offer or the level of the Placing Shares or Public Offer Shares being applied for or accepted or the distribution of the Offer Shares; or

(cc) makes it inadvisable or inexpedient to proceed with the Placing and/or the Public Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by the documents for the Public Offer and the Placing.

UNDERTAKINGS

Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has undertaken to the Company, the Sponsor and the Underwriters not to dispose of its/his interest in the Company during certain period. Details of such non-disposal undertaking are set out in the paragraph headed "Restrictions on disposal of Shares" in the section headed "Persons having interests notifiable under the SFO" in this prospectus.

The Company has also undertaken to the Underwriters that except pursuant to the Share Offer (including the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the exercise of the subscription rights attaching to the options that may be granted under the Share Option Scheme, it will not without the prior written consent of the Lead Manager (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the compliance of the Listing Rules, offer, allot or issue, or agree to allot or issue, grant or agree to grant any option, right or warrant over, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for equity securities of the Company (whether or not of a class already listed) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to do so within the first six months from the Listing Date.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price of the Offer Shares, out of which they will pay any sub-underwriting commissions. In addition, the Sponsor will receive advisory and documentation fees for acting as the Sponsor to the Share Offer. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK$1.37 (being the mid-point of the indicative Offer Price range of HK$1.13 per Offer Share and HK$1.61 per Offer Share), such underwriting commission and fees, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, the SFC investor compensation levy, legal and other professional fees, applicable printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$16 million in total and are payable by the Company.

Underwriters' interests in the Company

Save for their respective obligations under the Underwriting Agreement, none of the Underwriters has any shareholding interest in the Company or any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Lead Manager, for itself and on behalf of the Underwriters, and the Company on or before the Price Determination Time, when market demand for the Offer Shares will be determined. The Price Determination Time is expected to be at or before 9:00 a.m. (Hong Kong time) on Saturday, 18 September 2004 and, in any event, not later than 12:00 noon (Hong Kong time) on 18 September 2004.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Time may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$1.61 per Offer Share and is expected to be not less than HK$1.13 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Lead Manager, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of the Company, reduce the indicative Offer Price range below that 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, 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 day which is the last day for lodging applications under the Public Offer, cause there to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with the Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" of this prospectus, and any other financial information which may change as a result of such reduction. **If applications for 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 range is so reduced such applications cannot be subsequently withdrawn.** In the absence of any notice being published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach the Price Determination Agreement by the Price Determination Time, the Share Offer will not become unconditional and will not proceed.

The Offer Shares will be allocated after the application lists of the Public Offer close. No Offer Shares will be allotted after 30 days from the date of this prospectus. Announcement of the Offer Price, together with the indication of the level of interests in the Placing and the results of applications under the Public Offer and basis of allocation of the Public Offer Shares with successful applicants' identification numbers, where appropriate, is expected to be published on Wednesday, 22 September 2004.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.61 per Offer Share and is expected to be not less than HK$1.13 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK$1.61 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% SFC investor compensation levy, amounting to a total of HK$3,252.59 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK$1.61 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee, the SFC transaction levy and the SFC investor compensation levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer, the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Over-allotment Option and upon the exercise of any options that may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, among other things, that the Offer Price be agreed by no later than the Price Determination Time and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Underwriting Agreement and grounds for termination are set out in the section headed "Underwriting" in this prospectus.

If, for any reason, the Price Determination Agreement is not entered into, the Share Offer will not proceed.

If these conditions are not fulfilled on or before 23 September 2004 or such later date as the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may in its absolute discretion determine, the Share Offer will lapse and your application money will be returned to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed "Refund of your money" in the relevant application forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 160,000,000 Shares will initially be made available under the Share Offer, of which 144,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Placing. The remaining 16,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Public Offer. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation on the basis described below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

OVER-ALLOTMENT OPTION

In addition, the Company has granted the Over-allotment Option, exercisable by the Lead Manager on behalf of the Underwriters at any time within 30 days after the date of the last day of lodging application under the Public Offer, to require the Company to allot and issue up to an aggregate of 24,000,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing and/or to satisfy the Lead Manager's obligation to return Shares borrowed under the Securities Lending Agreement. The additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing or to satisfy its obligations to return Shares under the Securities Lending Agreement at the discretion of the Lead Manager, on behalf of the Underwriters. The Lead Manager may also, at its option, cover any over-allocations under the Placing through securities lending arrangements and the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued under the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

In order to facilitate settlement of over-allocations in connection with the Placing, the Securities Lending Agreement has been entered into between Exceed Standard, being the controlling Shareholder, and the Lead Manager whereby Exceed Standard has agreed with the Lead Manager that, if requested by the Lead Manager, it will, subject to the terms of the Securities Lending Agreement, make available to the Lead Manager up to 24,000,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the Placing, if any.

The net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be approximately HK$219 million. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK$32 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriters to professional, institutional and private investors. Investors may apply for the Shares under the Public Offer and indicate an interest for the Shares under the Placing, but may only receive an allocation of Shares under the Public Offer or the Placing. The Offer Shares are not available for subscription by the Directors, chief executive of the Company, existing beneficial owners of the Shares or their respective associates.

WAIVER ON RULE 10.07(1)

The Company and Exceed Standard have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 10.07(1) of the Listing Rules, which restricts the disposal of the Shares by the controlling Shareholder within the First Six-month Period, in order to allow Exceed Standard to enter into and perform its obligations under the Securities Lending Agreement on the conditions that:

(a) such securities lending arrangement with Exceed Standard will only be effected by the Lead Manager for settlement of over-allocations in connection with the Placing, if any;

(b) the maximum number of Shares to be borrowed from Exceed Standard by the Lead Manager must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;

(c) the same number of Shares borrowed must be returned to Exceed Standard or his nominees, as the case may be, not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full;

(d) the securities lending arrangement will be effected in compliance with all applicable laws and regulatory requirements; and

(e) no payment or other benefit will be made to Exceed Standard by the Lead Manager under the securities lending arrangement.

THE PLACING

The Company is initially offering, at the Offer Price, 144,000,000 Shares (subject to reallocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 90% of the total number of Shares being initially offered under the Share Offer, for subscription by way of Placing. The Placing is managed by the Lead Manager and fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is expected that the Placing Underwriters or selling agents nominated by any of them will, on behalf of the Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.005% SFC transaction levy, 0.002% SFC investor compensation levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid broad shareholder base to the benefit of the Company and its shareholders taken as a whole. Investors to whom Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The level of indication of interest in the Placing are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 22 September 2004. The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

THE PUBLIC OFFER

The Company is initially offering, at the Offer Price, 16,000,000 Shares (subject to reallocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer. The Public Offer is fully underwritten by the Public Offer Underwriter subject to the terms and conditions of the Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus a 1% brokerage, 0.005% SFC transaction levy, 0.002% SFC investor compensation levy and 0.005% Stock Exchange trading fee.

The total number of Shares available under the Public Offer (after taking into account any re-allocation of the Offer Shares between the Placing and the Public Offer referred to below) will be divided equally into pools: pool A and pool B. The Public Offer Shares in pool A should be allocated on an equitable basis to applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage, Stock Exchange trading fee, SFC transaction levy and SFC investor compensation levy) of HK$5 million or less. The Public Offer Shares in pool B should be allocated on an equitable basis to applicants who have applied for Public Offer Shares with a total subscription amount (excluding amounts of brokerage, Stock Exchange trading fee, SFC transaction levy and SFC investor compensation levy) more than HK$5 million and up to the value of pool B. Where one of the pools is undersubscribed, the surplus Public Offer Shares should be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares form either pool A or pool B but not from both pools and may only apply for Public Offer Shares in either pool A or pool B. Applicants should be aware that applications in pool A and applications in pool B may receive different allocation ratios.

Allocation of the 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 the Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of the Public Offer and basis of allotment of the Public Offer Shares (with successful applicants' identification document numbers, where appropriate) are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 22 September 2004.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications and applications for more than 100% of the Public Offer Shares being initially offered for public subscription in either pool A or pool B under the Public Offer are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

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 actually 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. A press announcement will be made in the event that the Over-allotment Option is exercised in part or in full.

In connection with the Share Offer, the Lead Manager may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might other wise prevail for a limited period after the issue date. In covering such over-allocations, the Lead Manager may exercise the Over-allotment Option no later than 30 days after the last day for the lodging of applications under the Public Offer or make (or agree, offer or attempt to make) open-market purchases in the secondary market. The Lead Manager may also sell or agree to sell any 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 the Lead Manager to conduct any such stabilisation action which, if began, may be discontinued at any time at the absolute discretion of the Lead Manager. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 24,000,000 Shares, which is 15% of the Shares initially available under the Share Offer.

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 ends on the thirtieth day after the last day for the lodging of applications under the Public Offer ("**Stabilisation Period**"). The Stabilisation Period is expected to expire on Friday, 15 October 2004, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price, could fall.

During the stabilisation period, as detailed below, the Lead Manager as stabilising manager or any person acting for it, may offer or agree to purchase, or purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with any such stabilisation transactions, the Lead Manager as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Lead Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Lead Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Lead Manager and is uncertain. In the event that the Lead Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the 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.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

(a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 32,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 48,000,000 Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;

(b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 48,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 64,000,000 Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer;

(c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 64,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 80,000,000 Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer; and

(d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

If the Public Offer is not fully subscribed, the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Lead Manager, for itself and on behalf of the Underwriters, has the authority to re-allocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such unsubscribed Placing Shares. Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on 22 September 2004.

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant's stock account or the stock account of your designated CCASS participant.

Note: The Offer Shares are not available to the directors or chief executive of the Company or any of its subsidiaries, existing beneficial owners of the Shares and the associates of any of them.

WHERE TO COLLECT THE APPLICATION FORMS

Copies of this prospectus, together with the **WHITE** application forms, may be obtained from:

Tai Fook Securities Company Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

SBI E2-Capital Securities Limited
43/F, Jardine House
One Connaught Place
Central
Hong Kong

Goldbond Securities Limited
39/F, Tower 1, Lippo Centre
89 Queensway
Hong Kong

CCB International Capital Limited
5/F., Tower One
Lippo Centre
89 Queensway, Admiralty
Hong Kong

FB Gemini Securities Limited
1503 Cheung Kong Center
2 Queen's Road Central
Hong Kong

Grand Vinco Capital Limited
Room 902, 9/F., Far East Financial Centre
16 Harcourt Road
Hong Kong

Kingsway Financial Services Group Limited
5/F, Hutchison House
10 Harcourt Road, Central
Hong Kong

Luen Fat Securities Company Limited
23/F., Euro Trade Centre
21-23 Des Voeux Road Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Phillip Securities (HK) Ltd.
11/F, United Centre
95 Queensway
Hong Kong

Phoenix Capital Securities Limited
Room 3203-04, 32/F.
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Standard Bank Asia Limited
36/F, Two Pacific Place
88 Queensway
Hong Kong

or any of the following branches of the **Hang Seng Bank Limited:**

Hong Kong Island:

Head Office	83 Des Voeux Road Central
Central District Branch	Basement, Central Building, Pedder Street
Causeway Bay Branch	28 Yee Wo Street
Wanchai Branch	200 Hennessy Road

Kowloon:

Kowloon Main Branch	618 Nathan Road
Tsimshatsui Branch	18 Carnarvon Road
Kwun Tong Branch	70 Yue Man Square
Mongkok Branch	677 Nathan Road

New Territories:

Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan
Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin

The **YELLOW** application forms, together with copies of this prospectus, may be obtained at (i) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or (ii) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong. Your stockbroker may also have the **YELLOW** application forms and prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Company or the Lead Manager as the Company's agent may accept it at their respective discretion, and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for the Public Offer Shares.

If you are a nominee, you may lodge 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

- some other identification code

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 not allowed. All** of your applications will be rejected as multiple applications if you, or you and your joint applicants or any of your joint applicants together:

- make more than one application on a **WHITE** and/or **YELLOW** application form;

- apply on one **WHITE** or **YELLOW** application form for more than 100% of the Public Offer Shares being initially offered in either pool A or B for public subscription under the Public Offer as referred to in the paragraph headed "Public Offer" under the section headed "Structure of the Share Offer" in this prospectus; or

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit. If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and

- 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 *means you:*

- *control the composition of the board of directors of that company; or*

- *control more than half of the voting power of that company; or*

- *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).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK$1.61 each. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, SFC investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. This means that for every 2,000 Public Offer Shares you will pay HK$3,252.59. The application forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares. You must pay the maximum Offer Price, the brokerage, the SFC transaction levy, the SFC investor compensation levy and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the related application forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on 17 September 2004. If the Offer Price as finally determined is less than HK$1.61 per Offer Share, appropriate refund payments (including the related brokerage, Stock Exchange trading fee, SFC transaction levy and SFC investor compensation levy attributable to the excess application monies) will be made to applicants, without interest. Details of the procedures for refund are contained below in the section headed "Collection/posting of share certificates/refund cheques and deposit of share certificates into CCASS". If your application is successful, the brokerage is paid to participants of the Stock Exchange, the transaction levy and the investor compensation levy are paid to the SFC, and the trading fee is paid to the Stock Exchange.

MEMBERS OF THE PUBLIC – TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged by 12:00 noon on 17 September 2004, or, if the application lists are not open on that day, then by 12:00 noon on the day the lists are open.

Your completed application form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any one of the branches and sub-branches of Hang Seng Bank Limited listed under the paragraph headed "Where to collect the application forms" above at the following times:

Tuesday, 14 September 2004	**–**	**9:00 a.m. to 4:00 p.m.**
Wednesday, 15 September 2004	**–**	**9:00 a.m. to 4:00 p.m.**
Thursday, 16 September 2004	**–**	**9:00 a.m. to 4:00 p.m.**
Friday, 17 September 2004	**–**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 17 September 2004.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open 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 Friday, 17 September 2004.

Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated the Public Offer Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following two situations in which the Public Offer Shares will not be allocated to you:

- **If your application is revoked**

  By completing the **WHITE** or **YELLOW** application form, you agree that you cannot 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 a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) issues a public announcement under that section which excludes or limits the responsibility of that person for this prospectus.

  If your application has been accepted, it cannot be revoked.

- **If the allotment of Public Offer Shares is void**

  Any allotment or transfer made in respect of your application will be void if the Listing Committee of the Stock Exchange does not grant the approval of the listing of, and permission to deal in, the Shares either:

  – within 3 weeks from the closing of the application lists; or

  – within a longer period of up to 6 weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within 3 weeks of the closing of the application lists.

- **Refund of your money**

  If you do not receive any Public Offer Shares for any of, but not limited to, the above reasons, the Company will refund your application money together with brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee to you without interest. If your application is accepted only in part, or, if the final Offer Price is determined at less than HK$1.61 per Offer Share, the Company will refund the appropriate portion of your application money, brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee to you, without interest. All such interest will be retained for the benefit of the Company.

All refunds will be by a cheque crossed "Account Payee Only", made out to you, or, if you are joint applicants, to the first-named applicant on your application form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

WHITE application form:

If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your application form that you wish to collect your share certificate(s) and/or refund cheque, if any, in person, you may collect it/them in person from:

Tricor Investor Services Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as at the date of despatch of Share certificates and refund cheques. This is expected to be Wednesday, 22 September 2004.

If you are an individual, you must not authorise any other person to make the collection on your behalf. If you are a corporation, you must attend by your authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.

If you do not collect your share certificate(s) and/or refund cheque, if any, in person within the time specified for collection, it/they will be sent to the address on your application form shortly after the date of despatch by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or more but have not indicated on your application form that you wish to collect your share certificate(s) and/or refund cheque in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your certificate(s) and/or refund cheque, if any, will be sent to the address on your application form on the date of despatch by ordinary post and at your own risk.

YELLOW application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your CCASS investor participant's stock account or the stock account of your designated CCASS participant maintained in CCASS as instructed by you at the close of business on 22 September 2004 or, under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- for the 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 allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company will publish the results of CCASS investor participants' applications together with the results of the Share Offer in the newspapers on Wednesday, 22 September 2004. The Company will publish information (if supplied) relating to the beneficial owner, the Hong Kong Identity Card numbers, passport numbers or other identification code (Hong Kong Business Registration number for corporations) on Wednesday, 22 September 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 22 September 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or the 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 make available to you an activity statement showing the number of Public Offer Shares credited to your stock account;

- if you have applied for 1,000,000 Public Offer Shares or more and have indicated on your application form that you wish to collect your refund cheque, if any, in person, you may collect it in person from:

  Tricor Investor Services Limited
  Ground Floor, Bank of East Asia Harbour View Centre
  56 Gloucester Road
  Wanchai
  Hong Kong

  between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers at the date of despatch of refund cheques. This is expected to be Wednesday, 22 September 2004;

- if you are an individual, you must not authorise any other person to make the collection on your behalf. If you are a corporation, you must attend by your authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited;

- if you do not collect your refund cheque, if any, in person within the time specified for collection, it will be sent to the address on your application form shortly after the date of despatch by ordinary post and at your own risk; and

- if you have applied for 1,000,000 Public Offer Shares or more but have not indicated on your application form that you wish to collect your refund cheque in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy, SFC investor compensation levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer" in the section headed "Structure of the Share Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto have become void, then your refund cheque (without interest), if any, will be sent to the address on your application form on the date of despatch by ordinary post and at your own risk. No receipt will be issued for the application monies paid. The Company will not issue temporary documents of title.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 23 September 2004. Shares will be traded in board lots of 2,000 Shares.

PUBLICATION OF RESULTS

The Company expects to publish the Offer Price, the level of indication of interests in the Placing, the results of applications under the Public Offer, the basis of allotment of the Public Offer, the number of Shares, if any, reallocated from the Placing to the Public Offer and the Hong Kong Identity Card/passport/Hong Kong Business Registration number of successful applicants, where applicable, under the Public Offer on Wednesday, 22 September 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares on the Stock Exchange or such other date as determined by HKSCC.

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 Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements, as such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong:

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

14 September 2004

The Directors
Kam Hing International Holdings Limited
Tai Fook Capital Limited

Dear Sirs

We set out below our report on the financial information regarding Kam Hing International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried out any business since the date of its incorporation save for the acquisition by way of a share exchange on 24 August 2004 of the entire issued share capital of Joint Result Holdings Limited ("Joint Result"), a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of the other subsidiaries set out in Section 1 below.

As at the date of this report, no audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not carried on any business, except for the acquisition of Joint Result as mentioned above. We have, however, performed our own independent review of all relevant transactions of the Company since the date of its incorporation.

In addition, no audited financial statements have been prepared for Kam Hing Enterprise Limited ("KH Enterprise"), Kam Hing Textile Macao Commercial Offshore Company Limited ("KH Macau") and 廣州錦昇紡織漂染有限公司 ("Guangzhou Kam Sing Textile and Dyeing Company Limited" or "Guangzhou Kam Sing") since their dates of incorporation as these companies are newly incorporated and have not commenced their operation. For the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the management accounts of these companies, which were prepared in accordance with accounting principles generally accepted in Hong Kong, since their dates of incorporation.

With effect from 1 March 2001, Kam Hing Piece Works Limited ("KH Piece Works") changed its financial year end date from 31 January to 31 December. For the purpose of this report, a separate set of audited financial statements of KH Piece Works for the year ended 31 December 2001 were prepared and were audited by Louie Wu & Co, Certified Public Accountants, Hong Kong, the then auditors of KH Piece Works. Except for the above, all companies now comprising the Group have adopted 31 December as their financial year end date for statutory reporting purposes.

The statutory financial statements of 番禺錦興紡織漂染有限公司 ("Panyu Kam Hing Textile Dyeing Co. Ltd." or "Panyu KH Textile"), a subsidiary of the Company registered in the People's Republic of China (the "PRC"), for each of the three years ended 31 December 2003 were prepared in accordance with the applicable accounting principles and financial regulations in the PRC and were audited by 廣州市德信會計師事務所有限公司 ("Guangzhou Decent Certified Public Accountants Co., Ltd."). No audited financial statements of Panyu KH Textile have been issued for the four months ended 30 April 2004. For the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the HKICPA on the management accounts of Panyu KH Textile, which were prepared in accordance with accounting principles generally accepted in Hong Kong, for each of the three years ended 31 December 2003 and the four months ended 30 April 2004 (the "Relevant Periods").

In addition, the statutory financial statements of Kam Hing Piece Works (S) Pte. Ltd. ("KH Piece Works (S)"), a subsidiary of the Company incorporated in Singapore, for the period from 3 March 2001 (date of incorporation) to 31 December 2001 and each of the two years ended 31 December 2003 were prepared in accordance with the applicable accounting principles and financial regulations in Singapore and were audited by Ken Tan & Co., Certified Public Accountants in Singapore. No audited financial statements of KH Piece Works (S) have been prepared for the four months ended 30 April 2004. For the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the HKICPA on the management accounts of KH Piece Works (S), which were prepared in accordance with accounting principles generally accepted in Hong Kong, for each of the period/years ended 31 December 2001, 2002 and 2003 and the four months ended 30 April 2004.

We have acted as auditors or performed our own independent audit procedures on the management accounts of the companies now comprising the Group for each of the periods referred to in this report, except as set out below:

Company name	Financial periods	Auditors
KH Piece Works	Year ended 31 December 2001	Louie Wu & Co Certified Public Accountants Hong Kong
Kam Hing International Shipping Limited ("KH Shipping")	Period from 13 June 2001 (date of incorporation) to 31 December 2001	Louie Wu & Co Certified Public Accountants Hong Kong
Kam Hing Textile (International) Limited ("KH Textile")	Year ended 31 December 2001	Louie Wu & Co Certified Public Accountants Hong Kong

The summaries of the combined results, combined statements of changes in equity and combined cash flow statements of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 April 2004 (the "Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group (collectively referred to as the "Accounts"), after making such adjustments as we considered appropriate, and are presented on the basis set out in Section 1 below.

We have examined the audited financial statements or, where appropriate, management accounts of all the companies now comprising the Group for each of the Relevant Periods, or from their respective dates of incorporation/registration where this is a shorter period, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA.

The audited financial statements and the management accounts are the responsibility of the directors of the respective companies who approve their issuance. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Summaries together with the notes thereto based on the Accounts, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 April 2004.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or management accounts of the companies now comprising the Group, after making such adjustments as we considered appropriate, have been prepared as if the current Group structure had been in existence throughout the Relevant Periods, or from the respective dates of incorporation/registration of the companies now comprising the Group where this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration	Issued share/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Joint Result	British Virgin Islands 15 October 2003	Ordinary US$10,000	100	–	Investment holding
KH Piece Works	Hong Kong 21 August 1998	Ordinary HK$2 Non-voting deferred HK$1,000,010 *(Note (a))*	–	100	Trading of finished fabrics
KH Piece Works (S)	Singapore 3 March 2001	Ordinary S$100,000	–	100	Provision of customer services
KH Shipping	Hong Kong 13 June 2001	Ordinary HK$100,000	–	100	Provision of air and ocean freight services

Company name	Place and date of incorporation/ registration	Issued share/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
KH Textile	Hong Kong 12 November 1996	Ordinary HK$2 Non-voting deferred HK$10,000,000 *(Note (a))*	–	100	Provision of knitting and dyeing services and trading of finished fabrics
Panyu KH Textile	PRC 26 March 1992	US$44,190,000 *(Note (b))*	–	100	Manufacture and trading of knitted and dyed fabrics
KH Enterprise	British Virgin Islands 28 March 2003	Ordinary US$1,000	–	100	Investment holding
KH Macau	Macau 16 January 2004	Pataca 100,000	–	100	Yet to commence business
Guangzhou Kam Sing	PRC 2 January 2004	HK$1,000,000 *(Note (c))*	–	100	Yet to commence business

Notes:

(a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of KH Piece Works and KH Textile. The holders of the non-voting deferred shares are not entitled to any dividends of KH Piece Works and KH Textile. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of KH Piece Works and KH Textile, to a return of the capital paid up on the non-voting deferred shares held by them to one half of the balance after a total sum of HK$100,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of KH Piece Works and KH Textile.

(b) Panyu KH Textile is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 25 years commencing from 26 March 1992. The registered capital of Panyu KH Textile is US$50,000,000. As at the date of this report, the registered capital was paid up as to US$44,190,000. The remaining US$5,810,000 is required to be paid up prior to 23 December 2004.

(c) Guangzhou Kam Sing is registered as a wholly-foreign owned enterprise under the PRC law with an operating period of 20 years commencing from 2 January 2004. The registered capital of Guangzhou Kam Sing is HK$6,000,000. As at the date of this report, the registered capital was paid up as to HK$1,000,000. The remaining HK$5,000,000 is required to be paid up prior to 2 January 2005.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which has been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA are as follows:

(a) 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:

(i) from the sale of goods, when 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;

(ii) from the rendering of services, when the relevant services are rendered; and

(iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(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.

(c) 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 the profit and loss account in the period in which it arises.

(d) Fixed assets and depreciation

Fixed assets, other than construction in progress, 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 the 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. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

During the year ended 31 December 2002, the annual depreciation rates of leasehold land and buildings, plant and machinery and motor vehicles of the Group were revised from 4% to 5%, 30% to 10% and 30% to 20%, respectively. In the opinion of the directors, the useful lives of the leasehold land and buildings, plant and machinery and motor vehicles are more accurately reflected by the revised estimates. These changes in estimates have been applied prospectively and resulted in an increase in depreciation charges of leasehold land and buildings by approximately HK$657,000, and a reduction in depreciation charges of plant and machinery and motor vehicles by approximately HK$38,463,000 and HK$414,000, respectively, for that year.

Construction in progress represents buildings 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 fixed assets when completed and ready for use.

(e) Accounts receivable

Accounts receivable, which generally have credit terms of up to 60 days (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 120 days) are recognised and carried at the original invoiced amount, less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

(g) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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 lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(h) 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.

(i) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred 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:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward 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, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(j) Foreign currencies

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 translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(k) 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.

(l) Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and bank balances 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 combined balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(m) Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made, based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2001. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

(n) 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.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

		Year ended 31 December			Four months ended 30 April
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*(a)*	711,620	980,192	1,101,581	385,827
Cost of sales		(585,473)	(758,892)	(822,925)	(296,666)
Gross profit		126,147	221,300	278,656	89,161
Other revenue	*(a)*	1,708	6,477	3,193	1,481
Selling and distribution costs		(42,110)	(56,541)	(62,856)	(22,503)
Administrative expenses		(55,668)	(76,539)	(92,370)	(32,226)
Other operating income/(expenses), net		(2,200)	(2,912)	(1,132)	2,045
Profit from operating activities	*(b)*	27,877	91,785	125,491	37,958
Finance costs	*(d)*	(5,098)	(6,240)	(10,357)	(4,249)
Profit before tax		22,779	85,545	115,134	33,709
Tax	*(e)*	(1,768)	(3,998)	(18,778)	(5,413)
Net profit from ordinary activities attributable to shareholders		21,011	81,547	96,356	28,296
Earnings per share	*(h)*				
– Basic		4.4 cents	17.0 cents	20.1 cents	5.9 cents
– Diluted		N/A	N/A	N/A	N/A

Notes:

(a) Turnover and revenue

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and knitting and dyeing services rendered. All significant intra-group transactions have been eliminated on combination.

An analysis of the Group's turnover and other revenue is as follows:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Sale of goods	703,405	971,340	1,090,190	383,289
Fee income from knitting and dyeing services	8,215	8,852	11,391	2,538
	711,620	980,192	1,101,581	385,827
Other revenue				
Fee income from freight handling services	680	5,937	2,027	1,000
Interest income	979	374	377	59
Others	49	166	789	422
	1,708	6,477	3,193	1,481
	713,328	986,669	1,104,774	387,308

(b) Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December 2001 HK$'000	Year ended 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Four months ended 30 April 2004 HK$'000
Cost of inventories sold	581,391	755,390	817,230	294,719
Cost of services provided	4,698	8,978	7,628	2,904
Auditors' remuneration	177	425	650	360
Research and development costs	595	1,161	1,738	417
Depreciation	30,310	20,394	27,375	10,371
Staff costs (excluding directors' remuneration – note (c)):				
Wages and salaries	30,872	39,997	47,798	18,392
Pension scheme contributions	403	1,126	1,507	543
Total staff costs	31,275	41,123	49,305	18,935
Minimum lease payments under operating leases in respect of land and buildings	1,403	2,486	1,158	170
Gain on disposal of fixed assets	(6)	–	(68)	–
Write off of fixed assets	–	–	–	8
Provision for inventories	–	9,873	2,739	–
Bad debts written off	1,151	640	386	–
Provision for doubtful debts	–	3,995	2,719	–
Write back of provision for doubtful debts	–	–	(344)	–
Write back of provision against other receivables	–	–	–	(200)
Exchange losses/(gains), net	1,055	(1,723)	(1,664)	(1,875)

Cost of inventories sold includes HK$38,336,000, HK$47,060,000, HK$51,101,000 and HK$19,132,000 for the years ended 31 December 2001, 2002 and 2003 and the four months ended 30 April 2004, respectively, in respect of depreciation, staff costs and provision for inventories, which are also included in the respective total amounts disclosed separately above.

Research and development costs include HK$295,000, HK$447,000, HK$614,000 and HK$206,000 for the years ended 31 December 2001, 2002 and 2003 and the four months ended 30 April 2004, respectively, in respect of staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

At 31 December 2001, 2002 and 2003 and 30 April 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

(c) Directors' and employees' remuneration

Details of the directors' remuneration during the Relevant Periods are as follows:

	Year ended 31 December 2001				
	Tai Chin Chun	**Tai Chin Wen**	**Cheung So Wan**	**Wong Siu Yuk**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	997	258	228	160	1,643
Discretionary bonuses	60	44	50	35	189
Pension scheme contributions	12	12	11	8	43
	1,069	314	289	203	1,875

	Year ended 31 December 2002				
	Tai Chin Chun	**Tai Chin Wen**	**Cheung So Wan**	**Wong Siu Yuk**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,689	815	280	194	2,978
Discretionary bonuses	938	662	44	132	1,776
Pension scheme contributions	34	33	12	9	88
	2,661	1,510	336	335	4,842

	Year ended 31 December 2003				
	Tai Chin Chun	**Tai Chin Wen**	**Cheung So Wan**	**Wong Siu Yuk**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,834	976	456	368	3,634
Discretionary bonuses	908	642	44	132	1,726
Pension scheme contributions	34	33	12	10	89
	2,776	1,651	512	510	5,449

	Four months ended 30 April 2004				
	Tai Chin Chun	**Tai Chin Wen**	**Cheung So Wan**	**Wong Siu Yuk**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	525	325	95	66	1,011
Discretionary bonuses	336	214	71	101	722
Pension scheme contributions	11	11	4	3	29
	872	550	170	170	1,762

Save as disclosed above, no other directors received any remuneration during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

The five highest paid individuals in the Group included one director during the year ended 31 December 2001 and two directors during each of the years ended 31 December 2002 and 2003 and the four months ended 30 April 2004. Information relating to their remuneration has been disclosed above. Details of the remuneration of the remaining four highest paid, non-director employees during the year ended 31 December 2001 and the remaining three highest paid, non-director employees during each of the years ended 31 December 2002 and 2003 and the four months ended 30 April 2004 are set out below:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	1,960	1,759	2,055	781
Discretionary bonuses	155	200	234	60
Pension scheme contributions	47	36	36	12
	2,162	1,995	2,325	853

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees			
	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
Nil to HK$1,000,000	4	2	2	3
HK$1,000,001 to HK$1,500,000	–	1	1	–
	4	3	3	3

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company 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.

The Group offers its staff competitive remuneration packages. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly each year. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's executive remuneration package include basic salary, discretionary bonus and housing benefit.

(d) Finance costs

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable				
– within five years	4,062	5,225	8,403	3,557
– over five years	45	42	–	–
Interest on finance leases	991	973	1,954	692
	5,098	6,240	10,357	4,249

(e) Tax

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current tax – Hong Kong				
Charge for the year/period	1,151	2,876	12,243	3,941
Underprovision in respect of prior years	25	–	–	–
Current tax – Elsewhere				
Charge for the year/period	–	–	6,513	1,472
Underprovision in respect of prior years	–	–	5	–
Deferred tax *(Note (l), Section 4)*	592	1,122	17	–
Total tax charge for the year/period	1,768	3,998	18,778	5,413

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16% during each of the two years ended 31 December 2002 and 17.5% during the year ended 31 December 2003 and the four months ended 30 April 2004. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003 and the four months ended 30 April 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Panyu KH Textile is entitled to be exempted from enterprise income tax in the PRC for the first two profit-making years followed by a 50% reduction in the enterprise income tax for the succeeding three years.

According to a confirmation obtained by Panyu KH Textile from the PRC tax bureau, 2001 was the first profit-making year of Panyu KH Textile for enterprise income tax purposes. As a result, no provision for enterprise income tax has been made by Panyu KH Textile for the years ended 31 December 2001 and 2002. For the year ended 31 December 2003 and the four months ended 30 April 2004, the applicable tax rate of Panyu KH Textile, after the 50% reduction, was 12%.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong		**Singapore**		**The PRC**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Year ended 31 December 2001								
Profit/(loss) before tax	8,148		(192)		14,823		22,779	
Tax at the statutory tax rate	1,304	16.0	(47)	(24.5)	4,892	33.0	6,149	27.0
Lower tax rate for specific provinces or local authority	–	–	–	–	(1,334)	(9.0)	(1,334)	(5.8)
Adjustments in respect of current tax of previous years	25	0.3	–	–	–	–	25	0.1
Exemption from tax due to tax holiday	–	–	–	–	(3,558)	(24.0)	(3,558)	(15.6)
Income not subject to tax	(149)	(1.8)	–	–	–	–	(149)	(0.7)
Expenses not deductible for tax	588	7.2	47	24.5	–	–	635	2.8
Tax charge at the Group's effective rate	1,768	21.7	–	–	–	–	1,768	7.8
Year ended 31 December 2002								
Profit before tax	19,087		69		66,389		85,545	
Tax at the statutory tax rate	3,054	16.0	15	22.0	21,908	33.0	24,977	29.2
Lower tax rate for specific provinces or local authority	–	–	–	–	(5,975)	(9.0)	(5,975)	(7.0)
Exemption from tax due to tax holiday	–	–	–	–	(15,933)	(24.0)	(15,933)	(18.6)
Income not subject to tax	(20)	(0.1)	–	–	–	–	(20)	–
Expenses not deductible for tax	964	5.0	11	15.7	–	–	975	1.1
Tax losses utilised from previous periods	–	–	(26)	(37.7)	–	–	(26)	–
Tax charge at the Group's effective rate	3,998	20.9	–	–	–	–	3,998	4.7
Year ended 31 December 2003								
Profit before tax	69,307		166		45,661		115,134	
Tax at the statutory tax rate	12,129	17.5	36	22.0	15,068	33.0	27,233	23.7
Lower tax rate for specific provinces or local authority	–	–	–	–	(4,109)	(9.0)	(4,109)	(3.6)
Adjustments in respect of current tax of previous years	–	–	5	3.0	–	–	5	–
Lower tax rate due to tax holiday	–	–	–	–	(5,479)	(12.0)	(5,479)	(4.8)
Income not subject to tax	(32)	–	(19)	(11.4)	–	–	(51)	–
Expenses not deductible for tax	146	0.2	13	7.8	1,020	2.2	1,179	1.0
Tax charge at the Group's effective rate	12,243	17.7	35	21.4	6,500	14.2	18,778	16.3

	Hong Kong		Singapore		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Four months ended 30 April 2004								
Profit before tax	21,927		413		11,369		33,709	
Tax at the statutory tax rate	3,837	17.5	91	22.0	3,751	33.0	7,679	22.7
Lower tax rate for specific provinces or local authority	–	–	–	–	(1,023)	(9.0)	(1,023)	(3.0)
Lower tax rate due to tax holiday	–	–	–	–	(1,364)	(12.0)	(1,364)	(4.0)
Income not subject to tax	(25)	(0.1)	(91)	(22.0)	–	–	(116)	(0.3)
Expenses not deductible for tax	129	0.6	–	–	108	0.9	237	0.7
Tax charge at the Group's effective rate	3,941	18.0	–	–	1,472	12.9	5,413	16.1

(f) Related party transactions

(i) The Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 December			Four months ended 30 April
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales of goods to Wing Hing Knitting (H.K.) Limited ("Wing Hing")	*(1)*	13,771	20,314	20,034	–
Fee income from knitting and dyeing services received from Wing Hing	*(1)*	6,026	8,811	8,371	–
Subcontracting fees paid to 南海永興針織有限公司 ("Nanhai Yong Xing")	*(1)*	36,852	–	–	–
Rental expense on directors' quarters paid to Goldwille Investments Limited ("Goldwille"), a company controlled by Mr. Tai Chin Chun and Madam Cheung So Wan	*(2)*	540	540	540	161
Rental expense on offices paid to Mr. Tai Chin Chun and Mr. Tai Chin Wen	*(3)*	–	–	–	20

Notes:

(1) The directors consider that these transactions were conducted in the ordinary and usual course of business of the Group and effected on prices and terms similar to those offered to/granted by other unrelated customers/suppliers of the Group. Wing Hing and Nanhai Yong Xing are companies in which Mr. Tai Chin Chun and/or Madam Cheung So Wan, directors of the Company, were shareholders and directors. Wing Hing and Nanhai Yong Xing were disposed of by the directors to independent third parties in November 2003 and January 2002, respectively, and ceased to be related companies of the Group accordingly. As a result, transactions with Wing Hing and Nanhai Yong Xing subsequent to their respective disposals by the directors are not disclosed above. The directors have also confirmed that the relevant transactions will be discontinued after the Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

(2) The rental expense was charged at a fixed amount of HK$45,000 per month in accordance with the terms specified in the rental agreement entered into in prior year. On 1 April 2004, the Group entered into a new tenancy agreement with Goldwille for the same properties at a monthly rental charge of HK$26,000 for a term of one year, based on the prevailing market rentals.

(3) On 1 April 2004, the Group entered into a tenancy agreement with Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, at a monthly rental charge of HK$20,000 for a term of one year, based on the prevailing market rentals.

(ii) As at 31 December 2001 and 2002, other loans totalling HK$37,166,000 had been advanced by a director of a subsidiary of the Company, who is also the brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company. During the year ended 31 December 2003, the other loans were fully settled (Note (i), Section 4).

(iii) The Group's banking and other credit facilities were secured by charges on assets owned and guarantees executed by the Company's directors and/or related companies, details of which are set out in notes (h) and (j) of Section 4 to this report.

(iv) Details of the Group's balances with related companies and directors are included in notes (d) and (k) of Section 4 to this report, respectively.

(g) Dividend

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the Relevant Periods.

(h) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 480,000,000 shares had been in issue throughout the Relevant Periods, comprising the 2,000,000 shares in issue as at the date of the Prospectus and 478,000,000 shares to be issued pursuant to the capitalisation issue, as described more fully in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in appendix VI to the Prospectus.

There were no dilutive potential ordinary shares in existence during the Relevant Periods and, therefore, no diluted earnings per share amounts have been presented.

4. COMBINED BALANCE SHEETS

The combined balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 April 2004, prepared on the basis set out in Section 1 above, are as follows:

		31 December			30 April
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Fixed assets	*(a)*	82,949	224,996	325,488	391,561
Deferred tax assets	*(l)*	1,383	–	–	–
		84,332	224,996	325,488	391,561
CURRENT ASSETS					
Inventories	*(b)*	50,923	91,579	236,298	291,475
Accounts and bills receivable	*(c)*	134,838	195,358	166,789	191,189
Prepayments, deposits and other receivables		6,676	7,761	24,462	20,851
Tax recoverable		–	399	127	127
Due from related companies	*(d)*	25,286	36,793	–	–
Pledged deposits	*(h)*	15,081	23,330	30,651	30,667
Cash and bank balances	*(e)*	6,732	25,104	27,061	14,280
		239,536	380,324	485,388	548,589
CURRENT LIABILITIES					
Accounts and bills payable	*(f)*	48,762	130,177	166,117	187,955
Accrued liabilities and other payables		21,046	36,337	45,360	57,715
Tax payable		488	2,051	16,644	15,524
Interest-bearing bank borrowings	*(g), (h)*	52,270	140,760	114,410	164,332
Other loans	*(i)*	37,616	37,166	–	–
Finance lease payables	*(j)*	7,295	11,653	19,431	27,382
Due to directors	*(k)*	41,234	54,704	–	–
Due to related companies	*(d)*	70,695	39,995	–	–
		279,406	452,843	361,962	452,908

		31 December			30 April
		2001	2002	2003	2004
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NET CURRENT ASSETS/ (LIABILITIES)		(39,870)	(72,519)	123,426	95,681
TOTAL ASSETS LESS CURRENT LIABILITIES		44,462	152,477	448,914	487,242
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	*(g), (h)*	3,493	2,597	104,777	104,762
Finance lease payables	*(j)*	181	27,806	32,001	42,048
Deferred tax liabilities	*(l)*	261	–	17	17
		3,935	30,403	136,795	146,827
		40,527	122,074	312,119	340,415
CAPITAL AND RESERVES					
Issued capital	*(m)*	11,315	11,315	78	78
Reserves	*(m)*	29,212	110,759	312,041	340,337
		40,527	122,074	312,119	340,415

Notes:

(a) Fixed assets

	Leasehold land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:						
As at 1 January 2001	37,730	100,102	6,357	3,565	–	147,754
Additions	13,615	13,799	2,467	1,828	–	31,709
Disposals	–	–	(28)	(292)	–	(320)
As at 31 December 2001 and 1 January 2002	51,345	113,901	8,796	5,101	–	179,143
Additions	7,344	110,360	2,249	1,421	41,067	162,441
As at 31 December 2002 and 1 January 2003	58,689	224,261	11,045	6,522	41,067	341,584
Additions	1,810	64,540	1,327	2,148	58,042	127,867
Disposals	–	–	–	(373)	–	(373)
As at 31 December 2003 and 1 January 2004	60,499	288,801	12,372	8,297	99,109	469,078
Additions	75	54,291	952	–	21,134	76,452
Transfers	–	1,251	–	–	(1,251)	–
Write off	–	–	(13)	–	–	(13)
As at 30 April 2004	60,574	344,343	13,311	8,297	118,992	545,517
Accumulated depreciation:						
As at 1 January 2001	2,721	57,891	2,481	2,890	–	65,983
Charge for the year	2,054	25,658	1,757	841	–	30,310
Disposals	–	–	(11)	(88)	–	(99)
As at 31 December 2001 and 1 January 2002	4,775	83,549	4,227	3,643	–	96,194
Charge for the year	2,348	15,233	2,024	789	–	20,394
As at 31 December 2002 and 1 January 2003	7,123	98,782	6,251	4,432	–	116,588
Charge for the year	2,957	21,070	2,133	1,215	–	27,375
Disposals	–	–	–	(373)	–	(373)
As at 31 December 2003 and 1 January 2004	10,080	119,852	8,384	5,274	–	143,590
Charge for the period	1,008	8,377	598	388	–	10,371
Write off	–	–	(5)	–	–	(5)
As at 30 April 2004	11,088	128,229	8,977	5,662	–	153,956
Net book value:						
As at 30 April 2004	49,486	216,114	4,334	2,635	118,992	391,561
As at 31 December 2003	50,419	168,949	3,988	3,023	99,109	325,488
As at 31 December 2002	51,566	125,479	4,794	2,090	41,067	224,996
As at 31 December 2001	46,570	30,352	4,569	1,458	–	82,949

The Group's leasehold land and buildings were held under the following lease terms:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Medium term leases				
– in Hong Kong	1,753	1,673	1,572	1,540
– outside Hong Kong	44,817	49,893	48,847	47,946
	46,570	51,566	50,419	49,486

At 31 December 2001, 2002 and 2003 and 30 April 2004, the Group's leasehold land and buildings with a net book value of approximately HK$12,508,000, HK$12,548,000 and HK$1,201,000 and HK$11,564,000, respectively, were pledged to secure banking facilities granted to the Group (Note (h), Section 4).

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery and motor vehicles at 31 December 2001, 2002 and 2003 and 30 April 2004 were as follows:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Plant and machinery	16,335	63,010	75,843	104,234
Motor vehicles	885	804	1,475	1,342
	17,220	63,814	77,318	105,576

As at the date of this report, three factory buildings included in the leasehold land and buildings have not been granted title certificates. Since the relevant documents required by the relevant government authority for the reissuance of the title certificates cannot be located by the Group and it is expected that it will take a significant amount of time and effort for the application process, the directors consider that the title certificates will not be granted by the relevant government authority in the sooner foreseeable future.

In addition, the Group is still in the process of applying for the land use planning for construction work permit, construction project and planning permit, commencement of construction works permit in respect of a six-storey factory building under construction currently.

As advised by the Company's legal adviser as to the PRC laws, in the event that any of the aforesaid buildings and structures are considered illegal or unauthorised, the relevant government authorities may order rectification steps by remodeling the structures of the buildings, or for more severe measures, order demolition or forfeiture of such buildings/structures and payment of fines. The aforesaid buildings and structures amounted to approximately HK$3 million as at 30 April 2004 are used for/intended to be used for warehousing purposes. Accordingly, the directors consider that the above buildings are not crucial to the operation of the Group and the potential impact as a result of any action taken by the government as aforesaid on the business or production of the Group is expected to be minimal. In addition, each of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company, together with two major shareholders of the Company (beneficially owned by Mr. Tai Chin Chun and Mr. Tai Chin Wen, respectively), have given joint and several indemnities in favour of the Group in respect of the abovementioned buildings/structures.

(b) Inventories

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	40,461	50,653	200,127	193,162
Work in progress	5,227	10,353	13,161	75,824
Finished goods	5,235	30,573	23,010	22,489
	50,923	91,579	236,298	291,475

No inventories were carried at net realisable value at the balance sheet dates.

(c) Accounts and bills receivable

An aged analysis of the Group's accounts and bills receivable as at the balance sheet dates, based on the invoice date, is as follows:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	40,461	30,685	63,021	122,971
31 to 60 days	20,171	32,149	49,486	33,210
61 to 90 days	26,563	34,736	24,091	16,573
Over 90 days	47,643	97,788	30,191	18,435
	134,838	195,358	166,789	191,189

(d) Balances with related companies

Particulars of the amounts due from related companies, which were controlled by Mr. Tai Chin Chun, Mr. Tai Chin Wen, Madam Cheung So Wan and/or Madam Wong Siu Yuk, directors of the Company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

31 December 2001

	31 December		Maximum amount outstanding during the year
	2000	**2001**	
	HK$'000	*HK$'000*	*HK$'000*
Goldwille	10,510	10,690	10,690
Li Hing Garment Company Limited	794	–	794
Kam Hing Spinning Industrial Limited	–	18	18
Link Square Limited	–	200	200
Wing Hing	6,916	11,675	11,675
Nanhai Yong Xing	–	1,939	1,939
番禺利興針織製衣有限公司	–	764	794
	18,220	25,286	

31 December 2002

	31 December		Maximum amount outstanding during
	2001	**2002**	**the year**
	HK$'000	*HK$'000*	*HK$'000*
Goldwille	10,690	10,962	10,962
Li Hing Garment Company Limited	–	6,455	6,455
Kam Hing Spinning Industrial Limited	18	–	18
Link Square Limited	200	–	200
Wing Hing	11,675	13,099	19,326
Good Time Engineering (H.K.) Limited	–	540	540
Nanhai Yong Xing	1,939	–	4,656
番禺利興針織製衣有限公司	764	5,737	5,737
	25,286	36,793	

31 December 2003

	31 December		Maximum amount outstanding during the
	2002	**2003**	**year**
	HK$'000	*HK$'000*	*HK$'000*
Goldwille	10,962	–	11,202
Li Hing Garment Company Limited	6,455	–	9,989
Wing Hing	13,099	–	13,099
Good Time Engineering (H.K.) Limited	540	–	540
番禺利興針織製衣有限公司	5,737	–	5,737
	36,793	–	

The balances with related companies were unsecured and interest-free. During the year ended 31 December 2003, all balances with related companies were settled through the current accounts with the directors.

(e) Cash and bank balances

As at 31 December 2001, 2002 and 2003 and 30 April 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,384,000, HK$2,269,000 and HK$4,494,000 and HK$4,544,000, respectively. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(f) Accounts and bills payable

An aged analysis of the Group's accounts and bills payable as at the balance sheet dates, based on invoice date, is as follows:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 90 days	36,835	99,662	131,216	176,050
91 to 180 days	8,753	27,590	24,341	11,891
181 to 365 days	3,174	2,925	10,560	14
	48,762	130,177	166,117	187,955

(g) Interest-bearing bank borrowings

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts	264	1	–	–
Bank loans				
Secured	55,499	143,356	114,425	164,332
Unsecured	–	–	104,762	104,762
	55,499	143,356	219,187	269,094
	55,763	143,357	219,187	269,094
Bank overdrafts repayable on demand	264	1	–	–
Bank loans repayable:				
Within one year	52,006	140,759	114,410	164,332
In the second year	1,430	1,330	15	–
In the third to fifth years, inclusive	1,106	351	104,762	104,762
Beyond five years	957	916	–	–
	55,499	143,356	219,187	269,094
	55,763	143,357	219,187	269,094
Portion classified as current liabilities	(52,270)	(140,760)	(114,410)	(164,332)
Long term portion	3,493	2,597	104,777	104,762

(h) Banking facilities

As at 30 April 2004, the Group's banking facilities were secured by the following:

(i) pledged bank deposits of the Group in the amount of HK$30,667,000 and legal charges over the Group's leasehold land and buildings with a net book value of HK$11,564,000 (Note (a), Section 4);

(ii) legal charges over certain properties owned by (1) certain directors of the Company and/or its subsidiaries; and (2) a related company;

(iii) a charge over certain listed securities owned by a director of the Company;

(iv) two taxi vehicles (including taxi licences) owned by a related company;

(v) unlimited personal guarantees given by the directors of the Company; and

(vi) unlimited corporate guarantees executed by two subsidiaries of the Company.

The Group has received written consent in principle from its bankers to the effect that the pledges and personal guarantees as stated in (ii) to (v) above will be released and replaced by securities of and/or corporate guarantees executed by the Company and/or other members of the Group upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(i) Other loans

Other loans were unsecured, interest-free and were fully settled during the year ended 31 December 2003. The other loans of HK$37,166,000 as at 31 December 2001 and 2002 were advanced by a director of a subsidiary of the Company, who is a also a brother of Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors of the Company.

(j) Finance lease payables

The Group leases certain of its plant and machinery and motor vehicles for its business operations. These leases are classified as finance leases and have remaining lease terms ranging from two to four years.

At the end of each of the Relevant Periods, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments				Present value of minimum lease payments			
	31 December			30 April	31 December			30 April
	2001	2002	2003	2004	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:								
Within one year	7,500	12,076	20,124	28,013	7,295	11,653	19,431	27,382
In the second year	132	12,000	20,252	27,563	123	11,196	18,962	26,102
In the third to fifth years, inclusive	60	17,940	13,694	17,362	58	16,610	13,039	15,946
Total minimum finance lease payments	7,692	42,016	54,070	72,938	7,476	39,459	51,432	69,430
Future finance charges	(216)	(2,557)	(2,638)	(3,508)				
Total net finance lease payables	7,476	39,459	51,432	69,430				
Portion classified as current liabilities	(7,295)	(11,653)	(19,431)	(27,382)				
Long term portion	181	27,806	32,001	42,048				

The finance lease payables were secured by legal charges over a property owned by a related company; a charge over certain listed securities owned by a director of the Company; two taxi vehicles (including taxi licences) owned by a related company; unlimited personal guarantees given by the directors of the Company, and unlimited corporate guarantees executed by two subsidiaries of the Company.

The Group has received written consent in principle from its bankers to the effect that the pledges and personal guarantees from related companies and directors of the Company as stated above will be released and replaced by securities of and/or corporate guarantees executed by the Company and/or other members of the Group upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(k) Due to directors

The amounts due to directors were unsecured and interest-free. On 31 December 2003, the amounts due to directors by Joint Result of HK$93,456,000 were settled by the allotment of an aggregate of 9,950 shares of US$1 each in Joint Result, credited as fully paid, to the directors (who were also the then shareholders of Joint Result).

(l) Deferred tax

The movements in deferred tax assets and liabilities during each of the Relevant Periods were as follows:

Deferred tax assets

	Losses available for offset against future taxable profits			
	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	2,083	1,383	–	–
Deferred tax charged to the profit and loss account during the year/period	(700)	(1,383)	–	–
Gross deferred tax assets at end of the year/period	1,383	–	–	–

Deferred tax liabilities

	Accelerated depreciation allowances			
	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	369	261	–	17
Deferred tax charged/(credited) to the profit and loss account during the year/period	(108)	(261)	17	–
Gross deferred tax liabilities at end of the year/period	261	–	17	17
Net deferred tax assets/(liabilities) at end of the year/period	1,122	–	(17)	(17)

There is no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

(m) Issued share capital and reserves

The amounts of the Group's issued share capital and reserves and the movements therein for the Relevant Periods are presented in the combined statement of changes in equity in Section 5 below.

The balance of issued share capital as at 31 December 2001 and 2002 represented the aggregate amount of issued share capitals of KH Piece Works, KH Textile, KH Shipping and KH Piece Works (S). The balance of the issued share capital as at 31 December 2003 and 30 April 2004 represented the issued share capital of 10,000 ordinary shares of US$1 each of Joint Result, which comprised (i) 10 shares issued to Mr. Tai Chin Chun and Mr. Tai Chin Wen, directors and beneficial shareholders of the Group, for cash on 30 December 2003; (ii) 40 shares in aggregate issued for the acquisitions of KH Piece Works, KH Textile, KH Shipping and KH Enterprise on 31 December 2003 (Note (d), Section 6); and (iii) 9,950 shares issued for the settlement of the amounts due to directors of HK$93,456,000 in aggregate on 31 December 2003 (Note (k), Section 4 and Note (e), Section 6).

The capital reserve represents (i) the difference between the nominal value of the share capital of KH Piece Works (S) over the nominal value of the issued share capital of KH Piece Works issued in exchange therefor; (ii) the difference between the aggregate of the nominal value of the issued share capitals of KH Piece Works, KH Textile, KH Shipping and KH Enterprise, over the nominal value of the issued share capital of Joint Result issued in exchange therefor; and (iii) the premium arising from the issue of shares by Joint Result in settlement of the amounts due to directors.

In accordance with the relevant PRC regulations, the subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserves until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses of the respective subsidiary.

(n) Contingent liabilities

At the end of each of the Relevant Periods, contingent liabilities not provided for were as follows:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills discounted with recourse	–	–	62,425	130,478

At 30 April 2004, the banking and other credit facilities granted to the subsidiaries supported by unlimited cross corporate guarantees given to the banks by certain subsidiaries, were utilised to the extent of approximately HK$254,843,000.

(o) Operating lease arrangements

The Group leases certain properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	676	825	447	546
In the second to fifth years, inclusive	887	1,067	–	–
After five years	560	506	–	–
	2,123	2,398	447	546

(p) Commitments

In addition to the operating lease commitments detailed in note (o) above, the Group had the following commitments as at the balance sheet date:

	31 December			30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital commitments, contracted but not provided for:				
Purchases of leasehold land and buildings	–	2,723	–	800
Purchases of machineries	2,608	–	15,892	1,041
Construction in progress	–	57,802	19,786	16,096
	2,608	60,525	35,678	17,937

At 30 April 2004, the Group had a commitment in respect of a capital contribution to two wholly-owned subsidiaries established in the PRC, Panyu KH Textile and Guangzhou Kam Sing, of US$20,020,000 (approximately HK$156,156,000) and HK$5,000,000, due on 23 December 2004 and 2 January 2005, respectively. Subsequent to the balance sheet date, a capital contribution to Panyu KH Textile of US$14,210,000 (approximately HK$110,838,000) was made (Note (b), Section 1).

(q) Net assets of the Company

The Company was incorporated on 26 November 2003. As at 30 April 2004, the Company had no assets or liabilities. Pursuant to a group reorganisation, the Company became the holding company of the Group on 24 August 2004. Had the group reorganisation been completed on 30 April 2004, the net assets of the Company as at that date would have been approximately HK$340,415,000, representing the Company's investments in its subsidiaries.

(r) Distributable reserves

As at 30 April 2004, there were no reserves available for distribution to its shareholders.

5. COMBINED STATEMENTS OF CHANGES IN EQUITY

The changes in the combined shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	Issued share capital *HK$'000* *(Note (m), Section 4)*	Capital reserve *HK$'000* *(Note (m), Section 4)*	Statutory surplus reserve *HK$'000* *(Note (m), Section 4)*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2001	1,100	–	–	8,201	9,301
Issue of shares	10,215	–	–	–	10,215
Net profit for the year	–	–	–	21,011	21,011
At 31 December 2001 and 1 January 2002	11,315	–*	–*	29,212*	40,527
Net profit for the year	–	–	–	81,547	81,547
Transfer to reserve	–	–	9,200	(9,200)	–
At 31 December 2002 and 1 January 2003	11,315	–*	9,200*	101,559*	122,074
Issue of shares	233	–	–	–	233
Arising on group reorganisation	(11,548)	11,548	–	–	–
Capitalisation of amounts due to directors *(Note (k), Section 4)*	78	93,378	–	–	93,456
Net profit for the year	–	–	–	96,356	96,356
Transfer to reserve	–	–	4,000	(4,000)	–
At 31 December 2003 and 1 January 2004	78	104,926*	13,200*	193,915*	312,119
Net profit for the period	–	–	–	28,296	28,296
Transfer to reserve	–	–	1,000	(1,000)	–
At 30 April 2004	78	104,926*	14,200*	221,211*	340,415

* These reserves accounts comprise the consolidated reserves of HK$29,212,000, HK110,759,000, HK$312,041,000 and HK$340,337,000 in the consolidated balance sheets of the Group as at 31 December 2001, 2002 and 2003 and 30 April 2004, respectively.

6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	Year ended 31 December			Four months ended 30 April
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	22,779	85,545	115,134	33,709
Adjustment for:				
Interest income *(Note (a), Section 3)*	(979)	(374)	(377)	(59)
Depreciation *(Note (b), Section 3)*	30,310	20,394	27,375	10,371
Gain on disposal of fixed assets *(Note (b), Section 3)*	(6)	–	(68)	–
Write off of fixed assets *(Note (b), Section 3)*	–	–	–	8
Provision for inventories *(Note (b), Section 3)*	–	9,873	2,739	–
Bad debts written off *(Note (b), Section 3)*	1,151	640	386	–
Provision for doubtful debts *(Note (b), Section 3)*	–	3,995	2,719	–
Write back of provision for doubtful debts *(Note (b), Section 3)*	–	–	(344)	–
Write back of provision against other receivables *(Note (b), Section 3)*	–	–	–	(200)
Finance costs *(Note (d), Section 3)*	5,098	6,240	10,357	4,249
Operating profit before working capital changes	58,353	126,313	157,921	48,078
Increase in inventories	(8,896)	(50,529)	(147,458)	(55,177)
Decrease/(increase) in accounts and bills receivable	(10,900)	(64,484)	25,808	(24,400)
Decrease/(increase) in prepayments, deposits and other receivables	(2,951)	(1,756)	(16,701)	3,811
Decrease/(increase) in amounts due from related companies	(7,066)	(11,507)	21,338	–
Increase in accounts and bills payable	2,781	81,415	35,940	21,838
Increase/(decrease) in accrued liabilities and other payables	(6,141)	15,291	9,023	12,355
Increase/(decrease) in amounts due to directors	(31,286)	13,020	53,292	–
Increase/(decrease) in amounts due to related companies	27,358	(30,700)	(39,080)	–
Cash generated from operations	21,252	77,063	100,083	6,505
Interest received	979	374	377	59
Interest paid	(4,107)	(5,267)	(8,403)	(3,557)
Interest element of finance lease rental payments	(991)	(973)	(1,954)	(692)
Hong Kong profits tax paid	(3,510)	(1,712)	(3,896)	(528)
Overseas taxes paid	–	–	–	(6,005)
Net cash inflow/(outflow) from operating activities	13,623	69,485	86,207	(4,218)

	Year ended 31 December 2001 HK$'000	2002 HK$'000	2003 HK$'000	Four months ended 30 April 2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of fixed assets	(25,959)	(118,158)	(99,461)	(51,517)
Proceeds from disposal of fixed assets	227	–	68	–
Increase in pledged deposits	(15,081)	(8,249)	(7,321)	(16)
Net cash outflow from investing activities	(40,813)	(126,407)	(106,714)	(51,533)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital element of finance lease rental payments	(8,479)	(12,300)	(16,433)	(6,937)
Proceeds from issue of share capital	10,215	–	233	–
Drawdown of bank loans	333,026	559,234	753,039	260,586
Repayment of bank loans	(326,175)	(471,377)	(677,208)	(210,679)
Drawdown of other loans	7,165	–	–	–
Repayment of other loans	–	–	(37,166)	–
Net cash inflow from financing activities	15,752	75,557	22,465	42,970
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(11,438)	18,635	1,958	(12,781)
Cash and cash equivalents at beginning of year/period	17,906	6,468	25,103	27,061
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	6,468	25,103	27,061	14,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	6,732	25,104	27,061	14,280
Bank overdrafts	(264)	(1)	–	–
	6,468	25,103	27,061	14,280

Major non-cash transactions

(a) During the years ended 31 December 2001, 2002 and 2003 and the four months ended 30 April 2004, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK$5,750,000, HK$44,283,000, HK$28,406,000 and HK$24,935,000, respectively.

(b) During the years ended 31 December 2002 and 2003, the Group settled the other loan of HK$450,000 and balances with related companies, respectively, through the current accounts with directors.

(c) During the year ended 31 December 2003, KH Piece Works acquired from its then shareholder the entire issued share capital of KH Piece Works (S) in consideration of and in exchange for the allotment and issue of 10 shares of HK$1 each in KH Piece Works, credited as fully paid, to its then shareholder.

(d) During the year ended 31 December 2003, Joint Result acquired the entire issued share capital of KH Piece Works, KH Textile, KH Shipping and KH Enterprise in consideration of and in exchange for the allotment and issue of 40 shares of US$1 each in Joint Result, credited as fully paid, to the then shareholders of KH Piece Works, KH Textile, KH Shipping and KH Enterprise.

(e) During the year ended 31 December 2003, amounts due to directors of HK$93,456,000 in aggregate were settled by the allotment of an aggregate of 9,950 shares of US$1 each in Joint Result, credited as fully paid, to the directors.

7. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No information has been disclosed in respect of the Group's business segments as over 90% of the Group's revenue and assets related to the manufacture and sale of finished knitted fabrics.

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) Singapore;

(b) Taiwan;

(c) Hong Kong; and

(d) Others.

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers and where segment revenue from external customers or segment assets are 10% or more of the Group's total amount. The Group's asset-based geographical segments are Singapore, Hong Kong and the PRC (other than Hong Kong and Macau) and Others.

(i) Geographical segments based on the location of customers

Year ended 31 December 2001

	Singapore	**Taiwan**	**Hong Kong**	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	450,073	54,771	79,276	127,500	711,620
Other revenue	430	52	76	122	680
Total	450,503	54,823	79,352	127,622	712,300
Segment results	60,745	7,773	10,101	18,095	96,714
Interest and other unallocated income					1,028
Unallocated expenses, net					(69,865)
Profit from operating activities					27,877
Finance costs					(5,098)
Profit before tax					22,779
Tax					(1,768)
Net profit from ordinary activities attributable to shareholders					21,011
Segment assets	87,466	12,064	28,568	18,415	146,513
Unallocated assets					177,355
					323,868
Segment liabilities	1,587	193	38,271	11,219	51,270
Unallocated liabilities					232,071
					283,341
Other segment information:					
Depreciation – unallocated					30,310
Capital expenditure – unallocated					31,709
Gain on disposal of fixed assets – unallocated					(6)
Bad debts written off	–	–	1,151	–	1,151

Year ended 31 December 2002

	Singapore	Taiwan	Hong Kong	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	614,489	103,748	116,675	145,280	980,192
Other revenue	3,632	613	834	858	5,937
Total	618,121	104,361	117,509	146,138	986,129
Segment results	103,516	20,175	20,880	24,359	168,930
Interest and other unallocated income					540
Unallocated expenses, net					(77,685)
Profit from operating activities					91,785
Finance costs					(6,240)
Profit before tax					85,545
Tax					(3,998)
Net profit from ordinary activities attributable to shareholders					81,547
Segment assets	123,578	25,733	37,162	21,984	208,457
Unallocated assets					396,863
					605,320
Segment liabilities	990	355	55,390	75,021	131,756
Unallocated liabilities					351,490
					483,246
Other segment information:					
Depreciation – unallocated					20,394
Capital expenditure – unallocated					162,441
Provision for inventories – unallocated					9,873
Provision for doubtful debts	3,020	–	49	255	3,324
Unallocated amounts					671
					3,995
Bad debts written off	–	–	640	–	640

Year ended 31 December 2003

	Singapore	Taiwan	Hong Kong	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	641,637	177,027	125,366	157,551	1,101,581
Other revenue	1,142	315	290	280	2,027
Total	642,779	177,342	125,656	157,831	1,103,608
Segment results	122,337	40,490	25,169	31,635	219,631
Interest and other unallocated income					1,166
Unallocated expenses					(95,306)
Profit from operating activities					125,491
Finance costs					(10,357)
Profit before tax					115,134
Tax					(18,778)
Net profit from ordinary activities attributable to shareholders					96,356
Segment assets	104,736	12,982	36,214	12,857	166,789
Unallocated assets					644,087
					810,876
Segment liabilities	371	530	80,056	85,797	166,754
Unallocated liabilities					332,003
					498,757
Other segment information:					
Depreciation – unallocated					27,375
Capital expenditure – unallocated					127,867
Gain on disposal of fixed assets – unallocated					(68)
Provision for inventories – unallocated					2,739
Bad debts written off	–	–	386	–	386
Provision for doubtful debts	1,581	600	–	538	2,719
Write back of provision for doubtful debts	(326)	–	(10)	(8)	(344)

Four months ended 30 April 2004

	Singapore	Taiwan	Hong Kong	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	200,313	89,464	36,770	59,280	385,827
Other revenue	519	232	95	154	1,000
Total	200,832	89,696	36,865	59,434	386,827
Segment results	36,959	17,359	7,133	11,504	72,955
Interest and other unallocated income					481
Unallocated expenses					(35,478)
Profit from operating activities					37,958
Finance costs					(4,249)
Profit before tax					33,709
Tax					(5,413)
Net profit from ordinary activities attributable to shareholders					28,296
Segment assets	134,336	6,834	31,217	18,802	191,189
Unallocated assets					748,961
					940,150
Segment liabilities	662	295	89,716	98,556	189,229
Unallocated liabilities					410,506
					599,735
Other segment information:					
Depreciation – unallocated					10,371
Capital expenditure – unallocated					76,452
Write off of fixed assets – unallocated					8
Write back of provision against other receivables – unallocated					(200)

(ii) Geographical segments based on the location of assets

	Singapore	Hong Kong	PRC (other than Hong Kong and Macau)	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2001					
Segment assets	272	233,373	90,223	–	323,868
Capital expenditure	37	1,993	29,679	–	31,709
Year ended 31 December 2002					
Segment assets	552	359,361	245,407	–	605,320
Capital expenditure	38	691	161,712	–	162,441
Year ended 31 December 2003					
Segment assets	851	247,541	562,484	–	810,876
Capital expenditure	325	1,754	125,788	–	127,867
Four months ended 30 April 2004					
Segment assets	467	253,951	685,132	600	940,150
Capital expenditure	21	150	75,792	489	76,452

8. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods by the Company, or any of the other companies now comprising the Group, to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending 31 December 2004 will be approximately HK$3,229,000, excluding discretionary bonuses payable under the directors' service contracts. Further details of the directors' service contracts are set out in the paragraph headed "Particulars of service contracts" in appendix VI to the Prospectus.

9. SUBSEQUENT EVENTS

Subsequent to 30 April 2004, the following events occurred:

(a) On 24 August 2004, the Company became the holding company of the Group.

(b) On 24 August 2004, the companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. Further details of the reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 30 April 2004.

10. 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 30 April 2004.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the profit after tax but before extraordinary items of the Group for the year ending 31 December 2004 is set out in the paragraph headed "Profit forecast" under the section headed "Financial information" in this prospectus:

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the profit after tax but before extraordinary items of the Group for the year ending 31 December 2004 based on the audited results of the Group for the four months ended 30 April 2004, the unaudited management accounts of the Group for the three months ended 31 July 2004, and forecast of the results for the remaining five months ending 31 December 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those normally adopted by the Group as summarised in the accountants' report, the text of which is set out in appendix I to this prospectus.

The Directors have adopted the following assumptions in the preparation of the profit forecast:

(i) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC, Singapore or any of the regions in which the Group carries on its business;

(ii) there will be no material changes in the bases or rates of tax applicable to the Group's business; and

(iii) there will be no material changes in the interest rates or foreign currency exchange rates from those currently prevailing.

2. LETTERS

Set out below are texts of letters received by the Directors from Ernst & Young and Tai Fook Capital in connection with the forecast of profit after tax but before extraordinary items of the Group for the year ending 31 December 2004 and prepared for the purpose of inclusion in this prospectus:

(i) Letter from Ernst & Young

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

14 September 2004

The Directors
Kam Hing International Holdings Limited
Tai Fook Capital Limited

Dear Sirs

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the profit after tax but before extraordinary items of Kam Hing International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2004 (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the prospectus dated 14 September 2004 issued by the Company (the "Prospectus"). The Forecast is prepared based on the audited results of the Group for the four months ended 30 April 2004, the results shown in the unaudited management accounts of the Group for the three months ended 31 July 2004, and a forecast of the results for the remaining five months of the financial year ending 31 December 2004 on the basis that the Group had been in existence throughout the entire financial year ending 31 December 2004.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out in part 1 of appendix II of 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 14 September 2004, the text of which is set out in appendix I of the Prospectus.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from Tai Fook Capital

TAI FOOK
大福融資有限公司
TAI FOOK CAPITAL LIMITED

Tai Fook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

14 September 2004

The Directors
Kam Hing International Holdings Limited

Dear Sirs,

We refer to the forecast of the profit after tax but before extraordinary items of Kam Hing International Holdings Limited (the "Company") and its subsidiaries for the year ending 31 December 2004 as set out in the prospectus dated 14 September 2004 issued by the Company (the "Forecast").

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 14 September 2004 addressed to yourselves and ourselves from Ernst & Young, regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by Ernst & Young, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C. O. Chan
Deputy Managing Director

The following is the text of a letter received from Ernst & Young in connection with the pro forma financial information of the Group set out in the paragraph headed "Pro forma financial information" under the section headed "Financial information" in this prospectus and prepared for the purpose of inclusion in this prospectus:

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

14 September 2004

The Directors
Kam Hing International Holdings Limited
Tai Fook Capital Limited

Dear Sirs

We report on the pro forma financial information set out in the paragraphs headed "Earnings per Share" and "Pro forma adjusted net tangible assets" in the section "Financial information" of the prospectus dated 14 September 2004 (the "Prospectus") in connection with the listing of Kam Hing International Holdings Limited (the "Company") on the Main Board of The Stock Exchange of Hong Kong Limited, which has been prepared, for illustrative purposes only, to provide information about how the proposed listing might have affected the financial information presented.

RESPONSIBILITIES

It is solely the responsibility of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared in accordance with the basis set out in the paragraphs headed "Earnings per Share" and "Pro forma adjusted net tangible assets" in the section "Financial information" of the Prospectus for illustrative purposes only and, because of its nature, it may not be indicative of:

- the earnings per share of the Company and its subsidiaries (the "Group") for any future periods; and

- the financial position of the Group at any future dates.

OPINION

In our opinion:

(a) the pro forma financial information has been properly compiled on the bases stated;

(b) such bases are consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation of this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 31 July 2004 of the property interests of the Group:

Sallmanns
Corporate Valuation and Consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

14 September 2004

The Board of Directors
Kam Hing International Holdings Limited
Units 5–9
8th Floor
Lucida Industrial Building
43–47 Wang Lung Street
Tsuen Wan
New Territories

Dear Sirs,

In accordance with your instructions to value the property in which Kam Hing International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong, People's Republic of China (the "PRC") and Singapore, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interests as at 31 July 2004 (the "date of valuation").

Wherever possible, our valuation of the property interests represent the open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in properties 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 the properties and the state of the market) for the proper marketing of the interest, for the agreement of the 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."

Due to a lack of evidence of comparable transactions in the PRC, our valuation for property interests in Group I is our opinion of the fair market value. Fair market value is defined as the estimated amount at which the subject property in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation of the relevant property as part of an on-going business.

Where, due to the nature of the buildings and structures of the property interests in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement." This opinion of value does not necessarily represent the amount that might be realised from the disposal of the subject property in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for property without a known used market.

We have valued the property interests in Groups II, III and IV by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Our valuations have been made on the assumption that the seller sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued 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 interests of those property interests of the Group in Hong Kong held under the Government Leases expiring before 30 June 1997, we have taken account of the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

For the property interests in Groups III and IV, which are rented and occupied by the Group, we have attributed no commercial value due mainly to the short term nature or the prohibition against sub-letting or assignment or otherwise due to the lack of substantial profit rents.

In our valuations, we have complied with all requirements contained in Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, letting, and all other relevant matters.

We have been, in some instances, provided by the Group with extracts of the title documents relating to the properties in the PRC and have caused searches to be made at the Hong Kong Land Registries in respect of Hong Kong properties. However, we have not searched the original documents to verify the existing titles to the property interests in the PRC or any material encumbrances that might be attached to the properties or any lease amendments, which may not appear on the copies handed to us. We have relied on the advice given by the Company's PRC legal adviser – GFE Law office, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar property interests in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property interests are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars. The exchange rate adopted in our valuations is approximately HK$1 = RMB1.064 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 21 years' experience in the valuation of properties in the PRC and 24 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interest owned and occupied by the Group in the PRC

No.	**Property**	**Fair market value in existing state as at 31 July 2004** *HK$*
1.	Various parcels of land on which various buildings and structures are constructed, located at Panyu Guangdong Province The PRC	75,385,000
	Sub-total:	75,385,000

Group II – Property interest owned and occupied by the Group in Hong Kong

No.	**Property**	**Open market value in existing state as at 31 July 2004** *HK$*
2.	Units 5–8 on 8th Floor Lucida Industrial Building Nos. 43–47 Wang Lung Street Tsuen Wan New Territories Hong Kong	1,190,000
	Sub-total:	1,190,000

Group III – Property interests rented and occupied by the Group in Hong Kong

No.	**Property**	**Open market value in existing state as at 31 July 2004** *HK$*
3.	Unit 4 on 8th Floor Lucida Industrial Building Nos. 43–47 Wang Lung Street Tsuen Wan New Territories Hong Kong	No commercial value
4.	Unit 9 on 8th Floor and Units 1–3 and 9 on 12th Floor Lucida Industrial Building Nos. 43–47 Wang Lung Street Tsuen Wan New Territories Hong Kong	No commercial value
5.	Flats A and B on 21st Floor Tower 9 Parc Royale No. 8 Hin Tai Street Shatin New Territories Hong Kong	No commercial value
6.	Unit C on 3rd Floor Watson Building Nos. 204–210 Texaco Road Tsuen Wan New Territories Hong Kong	No commercial value
	Sub-total:	Nil

Group IV – Property interests rented and occupied by the Group in Singapore

No.	Property	Open market value in existing state as at 31 July 2004 *HK$*
7.	Units 05–03 on 5th Floor HB Centre No. 12 Tannery Road Singapore	No commercial value
8.	Block 911 Toa Payoh Lorong 1 No. 17–01 Oleander Tower Singapore	No commercial value
	Sub-total:	Nil
	Total:	**76,575,000**

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Fair market value in existing state as at 31 July 2004 *HK$*
1.	Various parcels of land on which various buildings and structures are constructed, located at Panyu Guangdong Province The PRC	The property comprises 8 parcels of land with a total site area of approximately 140,303.4 sq.m., which are principally divided into three designated zones, namely zones A, B and C, details of which are listed as follows:	The property is currently occupied by the Group for industrial, ancillary office, dormitory, ancillary recreational facilities and other ancillary facilities purposes.	75,385,000

Zone	Site area *(sq.m.)*	Total gross floor area *(sq.m.)*
A	8,834.0	7,147.0#
B	28,741.4	59,406.2
C	102,728.0	80,731.3*

 # Excluding 3 completed buildings and 1 incomplete building. For details, please refer to note 17 below.

** Including 8 buildings, the construction of which are not fully completed. For details, please refer to notes 16 and 18 below.*

The property also comprises 17 buildings and various structures erected on the abovementioned 3 designated zones, of which 8 buildings were under construction and various ancillary structures. All completed buildings and structures were constructed in various stages between 1998 and 2003.

The buildings, excluding those under construction, have a total gross floor area of approximately 66,553.2 sq.m. (716,378.6 sq.ft.).

Buildings	No. of storeys	Gross floor areas *(sq.m.)*	Notes
Zone A			
Factory Building	4	7,147.0	2
Zone B			
Managerial Staff Dormitory	6	1,318.7	6
Factory Building No. 1	6	20,229.6	8
Factory Building No. 2	2	942.4	10
Factory Building No. 3	1	1,110	11
Factory Building No. 4	6	27,563.3	12
Dormitory Building No. 1	6	3,620.8	7
Dormitory Building No. 2	6	4,258.7	13
Warehouse	1	362.7	9
		66,553.2	

The land use rights of the property were granted for a term of 50 years with the latest expiry date on 13 April 2053.

Notes:

Zone A

1. Pursuant to a State-owned Land Use Rights Certificate, Pan Guo Yong (2000) Zi Di No. 19-0003480028, issued by the People's Government of Panyu District of Guangzhou City, the land use rights of the land with a site area of approximately 8,834 sq.m. were granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term of 50 years commencing from 14 April 1999 to 13 April 2049 for industrial uses.

2. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. 2926375 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of approximately 7,147 sq.m. of the factory plant in Industrial Zone A was held by, the wholly-owned subsidiary of the Company, Panyu Kan Hing Textile. The aforesaid total gross floor area was developed on the land parcel mentioned in Note (1).

Zone B

3. Pursuant to a Realty Title Certificate, Pan Guo Yong Zi Di No. 19-0003530035 issued by the People's Government of Panyu District of Guangzhou City, the land use rights (remarks: Buildings mentioned in Notes 6, 7 and 8 are erected on this parcel of land) of the land with a site area of approximately 10,641.4 sq.m. was granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term with the latest expiry date on 19 August 2048 for industrial uses.

4. Pursuant to a State-owned Land Use Rights Certificate, Pan Guo Yong Zi Di No. 19-000320 issued by the People's Government of Panyu District of Guangzhou City, the land use rights of the land with a site area of approximately 9,645 sq.m. were granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term with the latest expiry date on 28 June 2050 for industrial and warehouse uses.

5. Pursuant to a State-owned Land Use Rights Certificate, Pan Guo Yong (2000) Zi Di No. 19-0003470027 issued by the People's Government of Panyu City, the land use rights of the land with a site area of approximately 3,812 sq.m. were granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term of 50 years commencing from 19 May 2000 and expiring on 18 May 2050 for industrial uses.

6. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. 2966804 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of approximately 1,318.7 sq.m. of the main building in Industrial Zone B is held by, the wholly-owned subsidiary of the Company, Panyu Kan Hing Textile. The land use right term of the land parcel was granted to Panyu Kam Hing Textile for a term of 50 years commencing from 20 August 1998 and expiring on 19 August 2048 for industrial uses.

7. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. 2966805 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of approximately 3,620.8 sq.m. of the dormitory building in Industrial Zone B is held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile. The land use right term of the land parcel was granted to Panyu Kam Hing Textile for a term of 50 yeas commencing from 20 August 1998 and expiring on 19 August 2048 for industrial uses.

8. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. 2734376 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of approximately 20,229.6 sq.m. of the Factory Building No. 1 in Industrial Zone B is held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile. The land use right term of the land parcel was granted to Panyu Kam Hing Textile for a term of 50 years commencing from 20 August 1998 and expiring on 19 August 2048 for industrial uses.

9. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. C1333784 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of 362.7 sq.m. of the Warehouse erected on a commonly owned land of approximately 4,643 sq.m. in Industrial Zone B was held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile. The land use right of the land parcel with a land use right term expired on 16 November 2044 was transferred to Panyu Kam Hing Textile from Nanya Chemical (Panyu) Company Limited since January 2003 for industrial uses.

10. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. C1333786 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of 942.4 sq.m. of the Factory Building erected on a commonly owned land of approximately 4,643 in Industrial Zone B was held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile. The land use right of the land parcel with a land use right term expired on 16 November 2044 was transferred to Panyu Kam Hing Textile from Nanya Chemical (Panyu) Company Limited since January 2003 for industrial uses.

11. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. C1333785 issued by the People's Government of Panyu District of Guangzhou City, a total gross floor area of 1,110 sq.m. of the Factory Building erected on a commonly owned land of approximately 4,643 in Industrial Zone B was held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile. The land use right of the land parcel with a land use right term expired on 19 November 2044 was transferred to Panyu Kam Hing Textile from Nanya Chemical (Panyu) Company Limited since January 2003 for industrial uses.

12. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. C2023732, issued by the Land and House Office of Guangzhou, a total gross floor area of approximately 27,563.3 sq.m. of the factory plan in Industrial Zone B was held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile.

13. Pursuant to a Realty Title Certificate, Yue Fang Di Zheng Zi Di No. C2023731 issued by the Land and House Office of Guangzhou, a total gross floor area of approximately 4,258.7 sq.m. of the dormitory building in Industrial Zone B was held by, the wholly-owned subsidiary of the Company, Panyu Kam Hing Textile.

Zone C

14. Pursuant to a State-owned Land Use Rights Certificate, Pan Guo Yong (2000) Zi Di No. G19-000523 issued by the People's Government of Panyu District of Guangzhou City, the land use rights of the land with a site area of approximately 78,056 sq.m. were granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term with the latest expiry date on 24 April 2051 for industrial uses.

15. Pursuant to a State-owned Land Use Rights Certificate, Pan Guo Yong Zi Di No. G19-000836 issued by the People's Government of Guangzhou City, the land use rights of the land with a site area of approximately 24,672 sq.m. were granted to Panyu Kam Hing Textile, a wholly-owned subsidiary of the Company, for a term with the latest expiry date on 13 April 2053 for industrial uses.

16. According to the following Land Use Planning for Construction Works Permit and/or Construction Project and Planning Permit and/or Commencement of Construction Works Permit, the construction works below with a total gross floor area of approximately 80,731.3 sq.m. were approved. The details are set out as follows:

No.	Description	Land Use Planning for Construction Works Permit	Construction Project and Planning Permit	Commencement of Construction Works Permit	Permitted gross floor area *(sq.m.)*
i	Power Generating Plant	Sui Gui Pan Gong Zheng Zi (2002 Di No. 02324	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02886	440126200403250101	7,038
ii	Factory Building No.1 in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02319	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02881	440126200403250201	24,759.6

No.	Description	Land Use Planning for Construction Works Permit	Construction Project and Planning Permit	Commencement of Construction Works Permit	Permitted gross floor area
					(sq.m.)
iii	Factory Building No.2 in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02318	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02880	440126200403250201	27,775.4
iv	Dormitory Buildings B1 and B2 in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02317	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02879	440126200403250301	14,057
v	Building No.1 of Sewage Treatment Plant in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02322	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02885	440126200403250401	5,173.6
vi	Building No.2 of Sewage Treatment Plant in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02322	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02884	440126200403250401	1,068.9
vii	Building No.1 of Water Treatment Plant in Industrial Zone C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02320	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02882	440126200403250401	115.8
viii	Building No. 2 of Water Treatment Plant in Industrial None C	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02320	Sui Gui Pan Gong Zheng Zi (2002) Di No. 02883	440126200403250401	743

17. In the valuation of this property, we have not attributed any commercial value to 3 completed buildings and 1 incompleted building in Zone A with a total gross floor area of approximately 8,946 sq.m. which are yet to obtain proper title certificates. However, for reference purposes, as informed by the Company, the net book values of the 3 completed buildings and 1 incompleted building are HK$830,310 and HK$2,219,048 respectively, and the commencement of construction works permit of a building with a gross floor area of approximately 5,151 sq.m. is under application.

18. In the valuation, we have not taken into account the value of 8 buildings in Zone C with a total permitted gross floor area of approximately 80,731.3 sq.m. The construction of these buildings are not fully completed yet. According to the Company's information, the estimated total construction cost of these buildings is approximately HK$135,088,000 and an amount of HK$118,992,000 have already been incurred as at 30 April 2004.

19. In the valuation, we have not taken into account the value of 7 outdoor temporary stacking warehouses with a total gross floor area of approximately 12,408 sq.m. and the Company has confirmed to demolish these structures. The estimated total costs of these temporary structures is HK$0.9 million which has already been charged against the profit and loss accounts during the Track Record Period.

20. We have been provided with a legal opinion by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

    (i) the legal title of the abovementioned land use rights of the property is vested in Panyu Kam Hing Textile; and

    (ii) the property is legally owned by Panyu Kam Hing Textile and is not subject to any mortgage or any other encumbrances and can be freely transferable, let or mortgaged by the Group without any further payment of land grant premium.

VALUATION CERTIFICATE

Group II – Property interest owned and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
2.	Units 5-8 on 8th Floor Lucida Industrial Building Nos. 43-47 Wang Lung Street Tsuen Wan New Territories Hong Kong 32/2,118th parts or shares of and in the Remaining Portion of Lot No. 485 in D.D. 443	The property comprises 4 units on the 8th floor of a 25-storey industrial building completed in about 1992. The property has a total gross floor area of approximately 369 sq.m. (3,972 sq.ft.). The property is held under a Government Lease for a term of 99 years commencing from 1 July 1898 and statutorily renewed until 30 June 2047. The current government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group for industrial and ancillary office purposes.	1,190,000

Notes:

1. The owner of the property is Kam Hing Piece Works Limited and registered vide Memorial Nos. 1322615 dated 30 November 1999 and Memorial Nos. 1306136 and 1306135, both dated 31 August 1999. The total consideration of the property is HK$1,965,000.

2. The property is subject to a Deed of Mutual Covenant and Management Agreement vide Memorial No. 854819 dated 1 September 1992.

3. The property (other than unit 5) is subject to a Mortgage in favour of Chekiang First Bank Limited vide Memorial No. 1306137 dated 31 August 1999 and Second Mortgage in favour of Chekiang First Bank Limited vide Memorial No. 1449830 dated 18 January 2002.

VALUATION CERTIFICATE

Group III – Property interest rented and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
3.	Unit 4 on 8th Floor Lucida Industrial Building Nos. 43-47 Wang Lung Street Tsuen Wan New Territories Hong Kong	The property comprises a unit on the 8th floor of a 25-storey industrial building completed in about 1992. The property has a gross floor area of approximately 99 sq.m. (1,062 sq.ft.). The property is rented to Kam Hing Piece Works Limited by Ms. Wong Cheuk Duen, Ronnie (formerly known as Wong Sau Kuen), an independent third party and the registered owner of the property, for a term of 3 years commencing from 1 August 2004 and expiring on 31 July 2007 at a monthly rent of HK$4,950 inclusive of rates, government rent and management fee.	The property is currently occupied by the Group for industrial and ancillary office purposes.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
4.	Unit 9 on 8th Floor and Units 1-3 and 9 on 12th Floor Lucida Industrial Building Nos. 43-47 Wang Lung Street Tsuen Wan Hong Kong	The property comprises 1 unit on the 8th floor and 4 units on the 12th floor of a 25-storey industrial building completed in about 1992. The property has a total gross floor area of approximately 595 sq.m. (6,408 sq.ft.). The property is rented to Kam Hing Piece Works Limited from Mr. Tai Chin Chun and Mr. Tai Chin Wen (the registered owners of the property) for a term of 1 year commencing from 1 April 2004 and expiring on 31 March 2005 at a monthly rent of HK$20,000 exclusive of rates, government rent and management fee.	The property is currently occupied by the Group for industrial and ancillary office purposes.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
5.	Flats A and B on 21st Floor Tower 9 Parc Royale No. 8 Hin Tai Street Shatin New Territories Hong Kong	The property comprises 2 units on the 21st floor of a 23-storey residential building completed in about 1995. The property has a total gross floor area of approximately 224 sq.m. (2,406 sq.ft.). The property is rented to Kam Hing Piece Works Limited from Goldwille Investments Limited for a term of 1 year commencing from 1 April 2004 and expiring on 31 March 2005 at a monthly rent of HK$26,000 exclusive of rates, government rent, management fee and any other outgoings. Goldwille Investments Limited is a company incorporated in Hong Kong and whose entire issued share capital is held by Mr. Tai Chin Chun as to 70% and Madam Cheung So Wan as to 30%. Goldwille Investments Limited is the registered owner of the property.	The property is currently occupied by the Group for residential purposes.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
6.	Unit C on 3rd Floor Watson Building Nos. 204-210 Texaco Road Tsuen Wan New Territories Hong Kong	The property comprises a unit on 3rd floor of a 16-storey industrial building completed in about 1972. The property has a saleable floor area of approximately 628 sq.m. (6,758 sq.ft.). The property is rented to Kam Hing Piece Works Limited from Goldenshine Dyeing Factory Limited, an independent third party and the registered owner of the property, for a term commencing from 1 April 2004, which term is terminable by either party giving one calendar month's notice to quit, at a monthly rent of HK$10,000 inclusive of rates and management fee.	The property is currently occupied by the Group for industrial and ancillary office purposes.	No commercial value

VALUATION CERTIFICATE

Group IV – Property interests rented and occupied by the Group in Singapore

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
7.	Unit 05-03 on 5th Floor HB Centre No. 12 Tannery Road Singapore	The property comprises a unit on 5th floor of a 10-storey industrial building completed in about 2002. The property has a gross floor area of approximately 129 sq.m. (1,389 sq.ft.). The property is rented to Kam Hing Piece Works (S) Pte Ltd from Ho Bee Realty Pte Ltd., an independent third party and the registered owner of the property, for a term of 2 years commencing from 1 January 2003 and expiring on 31 December 2004 at a monthly rent of S$1,319.55 exclusive of management charges, but inclusive of rates and property tax.	The property is currently occupied by the Group for workshop ancillary office purposes.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 July 2004 *HK$*
8.	Block 911 Toa Payoh Lorong 1 #17-01 Oleander Tower Singapore	The property comprises a unit on the 17th floor of a 25-storey residential building completed in about 1998. The property has a gross floor area of approximately 136 sq.m. (1,464 sq.ft.). The property is rented to Kam Hing Piece Works (S) Pte Ltd from Netto Pascal Baylon, an independent third party and the registered owner of the property, for a term of 2 years commencing from 15 December 2003 and expiring on 14 December 2005 at a monthly rent of S$2,500 inclusive of rates, property tax and management charges.	The property is currently occupied by the Group for residential purposes.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law:

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 November 2003 under the Companies Law. The Memorandum of Association (the "Memorandum") and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 25 August 2004. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution – majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent. in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 9 December 2003.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the

Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 26 November 2003. The Company has established its principal place of business in Hong Kong at Units 5-9, 8/F, Lucida Industrial Building, 43-47 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong. The Company registered with the Registrar of Companies in Hong Kong as an overseas company under Part XI of the Companies Ordinance on 11 August 2004 and Mr. Tai Chin Chun of Flats A and B, 21/F, Tower 9, Parc Royale, 8 Hin Tai Street, Shatin, New Territories, Hong Kong and Mr. Tai Chin Wen of Flat A, 11/F, Tower 10, Parc Royale, 8 Hin Tai Street, Shatin, New Territories, Hong Kong have been appointed as the agents of the Company for the acceptance of service of process in Hong Kong.

2. Changes in share capital

(a) The authorised share capital of the Company as at the date of its incorporation was HK$100,000 divided into 1,000,000 Shares.

(b) On 17 February 2004, one Share was allotted and issued to the initial subscriber nil paid and then transferred to Exceed Standard. On the same date, an aggregate of 999,999 Shares were allotted and issued nil paid, as to 799,999 Shares to Exceed Standard and 200,000 Shares to Power Strategy.

(c) Pursuant to written resolutions of all the shareholders of the Company passed on 24 August 2004:

(i) the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of an additional 1,999,000,000 Shares; and

(ii) the Directors were authorised (aa) to credit as fully paid at par the aggregate of 1,000,000 Shares allotted and issued on 17 February 2004 and held by Exceed Standard and Power Strategy; and (bb) to allot and issue an aggregate of 1,000,000 Shares, credited as fully paid, as to 800,000 Shares to Exceed Standard and 200,000 Shares to Power Strategy as consideration for the acquisition of 10,000 shares of US$1 each in Joint Result from Mr. Tai Chin Chun and Mr. Tai Chin Wen.

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all the shareholders of the Company passed on 25 August 2004

Pursuant to written resolutions of all the shareholders of the Company passed on 25 August 2004:

(a) the Company approved and adopted its new Articles;

(b) conditional on the same conditions as stated in the subsection headed "Conditions of the Share Offer" in the section headed "Structure of the Share Offer" of this prospectus:

(i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares pursuant thereto;

(ii) the Over-allotment Option was approved and the Directors were authorised to allot and issue additional Shares upon the exercise of the Over-allotment Option; and

(iii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto;

(c) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise the amount of HK$47,800,000 from the amount standing to the credit of the share premium account of the Company and to appropriate such amount as to pay up in full at par 478,000,000 Shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on 25 August 2004, pro rata to its/their then existing shareholdings (or as nearly as possible without involving fractions) in the Company;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend or pursuant to the exercise of the options which may be granted under the Share Option Scheme or other similar arrangement, Shares with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein and (ii) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph (e) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or the revocation or variation by an ordinary resolution of the shareholders of the Company in a general meeting, whichever is the earlier; and

(e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or the revocation or variation by an ordinary resolution of the shareholders of the Company in a general meeting, whichever is the earlier.

Immediately following the Share Offer becoming unconditional and the issue of Shares as mentioned herein being made (but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option), the authorised share capital of the Company will be HK$200,000,000 divided into 2,000,000,000 Shares and the issued share capital will be HK$64,000,000 divided into 640,000,000 Shares, all fully paid or credited as fully paid and 1,360,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of members in a general meeting.

4. Corporate reorganisation

The companies in the Group underwent a reorganisation in preparation for the listing on the Stock Exchange which involved the following:

(a) on 30 December 2003, 10 shares of US$1 each in Joint Result were allotted and issued, as to 8 shares to Mr. Tai Chin Chun and 2 shares to Mr. Tai Chin Wen, for cash at par;

(b) on 31 December 2003:

(i) Mr. Tai Chin Wen transferred to Mr. Tai Chin Chun 20,000 shares of HK$1 each in KH Shipping;

(ii) the authorised share capital of KH Piece Works was increased from HK$1,000,000 to HK$1,000,100 by the creation of 100 additional shares of HK$1 each;

(iii) Kam Hing (Tai's) Group Limited transferred all its shares in KH Singapore to KH Piece Works in return for the allotment and issue of 10 shares of HK$1 each in KH Piece Works to Kam Hing (Tai's) Group Limited;

(iv) (aa) the 1,000,010 ordinary shares of HK$1 each in KH Piece Works held by Kam Hing (Tai's) Group Limited and its nominee were converted into 1,000,010 non-voting deferred shares of HK$1 each, carrying the rights and subject to the restrictions set out in the paragraph headed "Rights and restrictions of the non-voting deferred shares in KH Piece Works" in this appendix;

(bb) two ordinary shares of HK$1 each in KH Piece Works were allotted and issued to Joint Result and its nominee for cash at par;

(cc) in consideration for the conversion of the 1,000,010 ordinary shares into non-voting deferred shares in KH Piece Works, Joint Result allotted and issued, at the direction of the then beneficial shareholder of KH Piece Works, 10 shares of US$1 each in Joint Result, as to 8 shares to Mr. Tai Chin Chun and 2 shares to Mr. Tai Chin Wen;

(v) Mr. Tai Chin Chun and Mr. Tai Chin Wen transferred the entire issued share capital in KH Shipping to Joint Result in return for the allotment and issue of 10 shares of US$1 each in Joint Result, as to 8 shares to Mr. Tai Chin Chun and 2 shares to Mr. Tai Chin Wen;

(vi) (aa) the authorised share capital of KH Textile was increased from HK$10,000,000 to HK$10,000,100 by the creation of 100 additional shares of HK$1 each;

(bb) the 8,000,000 and 2,000,000 ordinary shares of HK$1 each in KH Textile held by Mr. Tai Chin Chun and Mr. Tai Chin Wen respectively were converted into 10,000,000 non-voting deferred shares of HK$1 each, carrying the rights and subject to the restrictions set out in the paragraph headed "Rights and restrictions of the non-voting deferred shares in KH Textile" in this appendix;

(cc) two ordinary shares of HK$1 each in KH Textile were allotted and issued to Joint Result and its nominee for cash at par;

(dd) in consideration for the conversion of the 10,000,000 ordinary shares into the non-voting deferred shares in KH Textile, Joint Result allotted and issued 10 shares of US$1 each in Joint Result, as to 8 shares to Mr. Tai Chin Chun and 2 shares to Mr. Tai Chin Wen;

(vii) Mr. Tai Chin Chun and Mr. Tai Chin Wen transferred the entire issued share capital in KH Enterprise to Joint Result in return for the allotment and issue of 10 shares of US$1 each in Joint Result, as to 8 shares to Mr. Tai Chin Chun and 2 shares to Mr. Tai Chin Wen;

(viii) in capitalising the loan due to Mr. Tai Chin Chun and Mr. Tai Chin Wen, Joint Result allotted and issued 9,950 shares of US$1 each in Joint Result, as to 7,960 shares to Mr. Tai Chin Chun and 1,990 shares to Mr. Tai Chin Wen; and

(c) on 24 August 2004, Mr. Tai Chin Chun and Mr. Tai Chin Wen transferred the entire issued share capital in Joint Result to the Company in consideration of and in exchange for which the Company (i) credited as fully paid at par an aggregate of 1,000,000 Shares allotted and issued nil paid on 17 February 2004 and held by Exceed Standard and Power Strategy; and (ii) allotted and issued, credited as fully paid at par, an aggregate of 1,000,000 Shares, as to 800,000 Shares to Exceed Standard and 200,000 Shares to Power Strategy (as directed by Mr. Tai Chin Chun and Mr. Tai Chin Wen respectively).

5. Changes in share capital of subsidiaries

The Company has the subsidiaries referred to in appendix I to this prospectus.

(a) on 16 May 2003, the PRC party and KH Textile entered into an agreement whereby both parties agreed to terminate the co-operative joint venture of Panyu KH Textile and Panyu KH Textile would be changed to a wholly foreign owned enterprise solely operated by KH Textile. Such termination and conversion into a wholly foreign owned enterprise was approved by 廣州市番禺區對外貿易經濟合作局 (the Foreign Trade Bureau of Panyu District, Guangzhou City) on 12 June 2003;

(b) on 28 November 2003, as approved by 廣州市對外貿易經濟合作局 (the Foreign Trade Bureau of Guangzhou City), Panyu KH Textile increased its registered capital from US$29,980,000 to US$50,000,000, and its total investment amount from US$29,980,000 to US$80,000,000. According to the amended articles of association of Panyu KH Textile, the increased portion of the registered capital should be injected into Panyu KH Textile within 12 months from 23 December 2003, being the date of the issue of the business licence; and

(c) on 9 June 2004, the 1,000,010 non-voting deferred shares of HK$1 each in KH Piece Works were transferred to Joint Result, and the 10,000,000 non-voting deferred shares of HK$1 each in KH Textile were transferred to Joint Result at an aggregate consideration of HK$2.

Save as mentioned in this paragraph, the paragraph headed "History and development" in the section headed "Business" of this prospectus and the paragraph headed "Corporate reorganisation" in this appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Rights and restrictions of the non-voting deferred shares in KH Piece Works

The rights and restrictions of the non-voting deferred shares in the capital of KH Piece Works are as follows:

(a) as regards income, the profits which KH Piece Works may determine to distribute in respect of any financial year shall be distributed among the holders of ordinary shares according to the amounts paid up on the ordinary shares held by them respectively and no part of the profits shall be distributed among the holders of the non-voting deferred shares;

(b) as regards capital, on a return of assets on winding up or otherwise, the assets of KH Piece Works to be returned shall be distributed as regards the first HK$100,000,000,000,000 thereof among the holders of ordinary shares in proportion to the nominal amounts of ordinary shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares in each case in proportion to the nominal amounts of the shares held by them respectively; and

(c) as regards voting, on a show of hands, every holder of ordinary shares (being an individual) present in person or by proxy or (being a corporation) is represented by its duly authorised representative shall have one vote, and on a poll every holder of ordinary shares present in person or by proxy or in the case of a corporation, by its authorised representative, shall have one vote for every ordinary share held by him but the non-voting deferred shares shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting.

7. Rights and restrictions of the non-voting deferred shares in KH Textile

The rights and restrictions of the non-voting deferred shares in the capital of KH Textile are as follows:

(a) as regards income, the profits which KH Textile may determine to distribute in respect of any financial year shall be distributed among the holders of ordinary shares according to the amounts paid up on the ordinary shares held by them respectively and no part of the profits shall be distributed among the holders of the non-voting deferred shares;

(b) as regards capital, on a return of assets on winding up or otherwise, the assets of KH Textile to be returned shall be distributed as regards the first HK$100,000,000,000,000 thereof among the holders of ordinary shares in proportion to the nominal amounts of ordinary shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares in each case in proportion to the nominal amounts of the shares held by them respectively; and

(c) as regards voting, on a show of hands, every holder of ordinary shares (being an individual) present in person or by proxy or (being a corporation) is represented by its duly authorised representative shall have one vote, and on a poll every holder of ordinary shares present in person or by proxy or in the case of a corporation, by its authorised representative, shall have one vote for every ordinary shares held by him but the non-voting deferred shares shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting.

8. Repurchase by the Company of its own securities

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their equity securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. The Company's sole listing will be on the Stock Exchange.

Note: Pursuant to a resolution in writing passed by all the shareholders of the Company on 25 August 2004, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned in this prospectus, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles or applicable laws to be held, or when revoked or varied by ordinary resolution of shareholders in a general meeting of the Company, whichever shall first occur.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders to have general authority from shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the Listing Rules and the laws of the Cayman Islands.

Based on the financial position of the Group as at 30 April 2004 (being the date to which the latest audited financial statements of the Group were made up), the Directors consider that there would not be a material adverse impact on the working capital and on the gearing position of the Company if the proposed repurchases were to be carried out in full during the proposed repurchase period. However, the Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so.

If as a result of a securities repurchase a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Hong Kong Code on Takeovers and Mergers and the provision may apply as a result of any such increase. The Directors are not aware of any consequences of repurchases which would arise under the Hong Kong Code on Takeovers and Mergers.

(e) Share capital

Exercise in full of the repurchase mandate referred to in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in this appendix, on the basis of 640,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option) could accordingly result in up to 64,000,000 Shares being repurchased by the Company during the period prior to the date of which such repurchase mandate expires or terminates as mentioned in the sub-paragraph (e) in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 25 August 2004" in this appendix.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) a sale and purchase agreement dated 24 August 2004 entered into between (i) Mr. Tai Chin Chun and Mr. Tai Chin Wen; (ii) Madam Cheung So Wan and Madam Wong Siu Yuk; and (iii) the Company whereby Mr. Tai Chin Chun and Mr. Tai Chin Wen agreed to transfer the entire issued share capital in Joint Result to the Company, and the Company in return:

(aa) credited as fully paid at par an aggregate of 1,000,000 Shares allotted and issued nil paid on 17 February 2004 and held by Exceed Standard and Power Strategy, and

(bb) allotted and issued, credited as fully paid, an aggregate of 1,000,000 Shares, as to 800,000 Shares to Exceed Standard and 200,000 Shares to Power Strategy as directed by Mr. Tai Chin Chun and Mr. Tai Chin Wen respectively;

(b) a deed of indemnity dated 13 September 2004 given by Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, *inter alia*, Hong Kong estate duty and matters referred to in the paragraph headed "Estate duty, tax and other indemnities" in this appendix; and

(c) the Underwriting Agreement.

2. Intellectual property rights

As at the Latest Practicable Date, the Group has applied for registration of the following trade/service marks, but registration of which has not yet been granted:

Mark	**Place of application**	**Date of application**	**Class**	**Products**
	Hong Kong	20 July 2004	24	Textiles and textile goods, not included in other classes; bed and table covers
	Hong Kong	20 July 2004	24	Textiles and textile goods, not included in other classes; bed and table covers

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain name	**Date of registration**
www.kam-hing.com.hk	13 October 1999

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to the Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Save as disclosed herein and in the paragraph headed "Summary of material contracts" in this appendix, none of the Directors or the experts named in the paragraph headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus.

(b) Save as disclosed in the paragraph headed "Summary of material contracts" in this appendix, none of the Directors 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.

2. Particulars of service contracts

Each of the executive Directors has entered into a service contract with the Company for a term of 3 years commencing on 1 September 2004. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the Board, be increased by not more than 20% and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the Directors for such year shall not exceed 5% of the audited combined/consolidated profit after tax and minority interest (if any). Each of the executive Directors will also be entitled to housing benefit and all reasonable out-of-pocket expenses and medical expenses and the use of a car and fuel and maintenance (including insurance) expenses in respect of the car used by him/her. Under the service contracts, the initial basic remuneration payable to each of the executive Directors per annum is as follows:

Mr. Tai Chin Chun	HK$1,170,000
Mr. Tai Chin Wen	HK$910,000
Madam Cheung So Wan	HK$390,000
Madam Wong Siu Yuk	HK$390,000

Each of the independent non-executive Directors is appointed for an initial term of 3 years commencing from 1 September 2004. The annual fee payable to each of the independent non-executive Director is currently proposed to be HK$180,000.

3. Directors' remuneration

Remuneration and benefits in kind, excluding the discretionary bonus, of approximately HK$3,723,000 in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended 31 December 2003.

Under the current arrangements, the Directors will be entitled to receive remuneration which, for the year ending 31 December 2004, is expected to be approximately HK$3,229,000, excluding the discretionary bonuses payable to the Directors.

4. Interests and short position of Directors in the share capital of the Company after the Share Offer and the Capitalisation Issue

Immediately following completion of the Share Offer and the Capitalisation Issue (taking into no account of Shares which may be taken up under the Share Offer and the exercise of the Over-allotment Option), the Directors will have the following interests and short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange, once the Shares are listed:

(i) The Company

Name	Number of Shares	Capacity	Percentage of holding
Mr. Tai Chin Chun	384,000,000 Long position *(Note 1)*	Interest of a controlled corporation	60%
	24,000,000 Short position *(Note 1)*	Short position of a controlled corporation	3.75%
Mr. Tai Chin Wen	96,000,000 Long position *(Note 2)*	Interest of a controlled corporation	15%
Madam Cheung So Wan	384,000,000 Long position *(Note 3)*	Interest of spouse	60%
	24,000,000 Short position *(Note 3)*	Short position of spouse	3.75%
Madam Wong Siu Yuk	96,000,000 Long position *(Note 4)*	Interest of spouse	15%

(ii) Associated corporations

Name of associated corporation	Name of Directors	Capacity	Number of shares in the associated corporation	Approximate percentage of shareholding in the associated corporation
Exceed Standard	Mr. Tai Chin Chun	Beneficial owner	1 share of US$1 Long position	100%
Power Strategy	Mr. Tai Chin Wen	Beneficial owner	1 share of US$1 Long position	100%

Notes:

1. The Shares are held by Exceed Standard, a company incorporated in BVI, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Chun, the chairman and an executive Director of the Company. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen. Out of the 384,000,000 Shares held by Exceed Standard, 24,000,000 Shares are subject to the arrangements under the Securities Lending Agreement.

2. The Shares are held by Power Strategy, a company incorporated in BVI, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Wen, an executive Director of the Company. Mr. Tai Chin Wen is the elder brother of Mr. Tai Chin Chun.

3. Madam Cheung So Wan is deemed to be interested and have short position in these Shares through the interest and short position of her spouse, Mr. Tai Chin Chun.

4. Madam Wong Siu Yuk is deemed to be interested in these Shares through the interest of her spouse, Mr. Tai Chin Wen.

5. Interests and short position of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Share Offer and the Capitalisation Issue, as far as known to the Directors (taking no account of Shares which may be taken up under the Share Offer and Shares falling to be allotted and issued upon the exercise of the Over-allotment Option), the following (not being a Director or chief executive of the Company), will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and

3 of Part XV of the SFO 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:

Name	**Number of Shares**	**Percentage of holding**
Exceed Standard *(Note 1)*	384,000,000 Long position	60%
	24,000,000 Short position	3.75%
Power Strategy *(Note 2)*	96,000,000 Long position	15%

Notes:

1. Exceed Standard is a company incorporated in BVI, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Chun, the chairman and an executive Director of the Company. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen. Out of the 384,000,000 Shares owned by Exceed Standard, 24,000,000 Shares are subject to the arrangements under the Securities Lending Agreement.

2. Power Strategy is a company incorporated in BVI, the entire issued share capital of which is beneficially owned by Mr. Tai Chin Wen, an executive Director of the Company. Mr. Tai Chin Wen is the elder brother of Mr. Tai Chin Chun.

6. Personal guarantees

Certain Directors have provided guarantees in favour of certain banks for debts and liabilities due by certain members of the Group. The Group has received written consent in principle from its bankers to the effect that such guarantees are expected to be released and replaced by corporate guarantees from the Company after listing of the Shares on the Stock Exchange.

7. Agency fees or commission

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

8. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or chief executive of the Company has any interest, any long and short positions in shares and underlying shares, listed or unlisted derivatives of, or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to 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 once the Shares are listed;

(b) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(c) none of the Directors or the experts named in the paragraph headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of, 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 Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(e) taking no account of Shares which may be taken up under the Share Offer, the Capitalisation Issue and Shares failing to be issued upon exercise of the Over-allotment Option, none of the Directors is aware of any person (not being a Director or chief executive of the Company) who will immediately following completion of the Share Offer and the Capitalisation Issue (taking into no account of any Shares which may be taken up under the Share Offer or Shares falling to be allotted and issued upon the exercise of the Over-allotment Option) be interested or have a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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 member of the Group; and

(f) none of the experts named in the paragraph headed "Consents of experts" in 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 the Group or is an officer or servant or in employment of an officer or servant of the Group.

D. SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme adopted pursuant to written resolutions of all the shareholders of the Company passed on 25 August 2004:

1. Who may join and purpose

The Directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(a) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(b) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any consultants, advisers, managers, officers who provide research, development, other technological support or services to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly owned by one or more persons belong to any of the above classes of participants.

The basis of eligibility of any of the above class of participants to the grant of any options shall be determined by the Directors in their absolute discretion from time to time on the basis of their contribution to the development and growth of the Group.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

2. Price of Shares

The subscription price shall, subject to the adjustment as stated in the Share Option Scheme, be a price determined by the Board and shall not be less than the highest of (i) the nominal value of a Share; (ii) the closing price of one Share as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which shall be a business day; and (iii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

3. Maximum number of Shares

(a) The number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme and any other share option scheme adopted by the Group shall not exceed such number of Shares as equals 30 per cent. of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit referred to in this paragraph being exceeded.

(b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not inaggregate exceed 64,000,000 Shares, being 10 per cent. of the Shares in issue upon completion of the Share Offer and the Capitalisation Issue at the time dealings in the Shares commence on the Stock Exchange ("General Scheme Limit") provided that:

(i) subject to paragraph (a) and without prejudice to paragraph (b)(ii), the Company may by the issue of a circular to and approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not exceed 10 per cent. of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted; and

(ii) subject to paragraph (a) and without prejudice to paragraph (b)(i), the Company may by the issue of a circular in compliance with Note (1) to rule 17.03(3) and rule 17.16 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and separate shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the limit referred to in paragraph (b)(i) to participants specifically identified by the Company before such approval is sought.

4. Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent. of the Shares in issue, such further grant must be subject to (i) the issue of a circular by the Company to its shareholders which shall comply with rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules; and (ii) the approval by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

5. Grant of options to connected persons

Any grant of options under the Share Option Scheme to a connected person (as defined in the Listing Rules) or any of his respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee). Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1 per cent. of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK$5 million;

such further grant of options must be subject to the issue of a circular by the Company to its shareholders which shall comply with rules 17.04 and 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of shareholders of the Company on a poll in general meeting.

6. Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. A consideration of HK$1 will be payable upon acceptance of the offer.

7. Performance target

Unless the Directors otherwise determined and stated in the offer of grant of options to a grantee, a grantee is not required to achieve any performance target before any options can be exercised under the Share Option Scheme.

8. Minimum period of holding an option

At the time of making the offer of grant of options, the Board will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised.

9. Rights are personal to grantee

An option may not be transferred or assigned and will be personal to the grantee.

10. Rights on dismissal

If the grantee of an option leaves the services of the Group by reason of his voluntary resignation or the termination of his employment in accordance with the provisions of his contract of employment or because his employing company ceases to be a member of the Group or an invested entity, all his options will lapse automatically (to the extent not already exercised) and determine on the date he so ceases provided that the Directors in their absolute discretion may otherwise determine.

11. Rights on ceasing employment or death

If the grantee of an option leaves the service of the Group by reason of ill-health, disability or death or retirement in accordance with the terms of his employment before exercising his option in full, the grantee or the personal representatives of the grantee may exercise the option in full within a period of six months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse provided that the Directors in their absolute discretion may otherwise determine.

12. Effect of alterations to capital

In the event of any reduction, sub-division or consolidation of the share capital of the Company or capitalisation issue, rights issue, the number or nominal amount of Shares comprised in each option and/or the subscription price may be adjusted in such manner as the Directors (having received a statement in writing from the auditors or the independent financial adviser of the Company that in their opinion the adjustments proposed are fair and reasonable and satisfy the requirement of rule 17 of the Listing Rules) may deem appropriate, provided always that a grantee shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments and no increase shall be made in the aggregate subscription price relating to any option.

13. Rights on a general offer

In the event of a general offer being made to all the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company) or otherwise, any person shall have obtained control of the Company, then the Directors shall as soon as possible thereafter notify the grantee and the grantee shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time within 14 days after the date on which the general offer becomes or is declared unconditional and any option (to the extent not already exercised) shall upon expiry of such period cease and determine.

14. Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (to his or her legal personal representatives) shall be entitled to exercise all or any of his/her options (to the extent not already exercised) at any time not later than four (4) business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

15. Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed, the Company shall give notice thereof to all grantees on the same date as it despatches notice of the meeting to its members or creditors to summoning the meeting to consider such a compromise or arrangement and thereupon a grantee (or his or her legal personal representatives) may, forthwith and until the expiry of the period commencing on such date and ending on the earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court be entitled to exercise his option, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised under this paragraph.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date on which the name of the grantee is registered on the register of members of the Company, save that they will not rank for any dividend declared or recommended to be paid on a date prior to such date of registration.

17. Period of Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

18. Cancellation of options

Any cancellation of options granted but not exercised must be approved by shareholders of the Company in general meeting, with the relevant grantees and their associates abstaining from voting.

19. Termination of the Share Option Scheme

The Company may be by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

20. Alteration

The Directors may from time to time in their absolute discretion waive or amend such terms and conditions of the rules of the Share Option Scheme as they may deem desirable save and except the following which shall be approved by the shareholders of the Company in general meeting:

(a) alteration to the terms and conditions of the Share Option Scheme relating to the matters set out in rule 17.03 of the Listing Rules to the advantage of participants to the Share Option Scheme;

(b) alteration to the terms and conditions of the Share Option Scheme which are of a material nature (except any alterations which take effect automatically under the terms of the Share Option Scheme); and

(c) any alteration to the terms and conditions of the options granted.

Any change to the authority of the Directors in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders of the Company in general meeting provided that the amended terms of the Share Option Scheme shall remain in compliance with Chapter 17 of the Listing Rules.

21. Lapse of option

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the option period;

(ii) the expiry of the acceptance period of the grant of the option;

(iii) the expiry of the periods referred to in paragraphs 10 to 11 and 13 to 15 above;

(iv) the date of commencement of the winding-up of the Company; and

(v) the date on which the grantee assigns, sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option.

22. Present status of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the scheme and any options which may be granted thereunder and the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of options granted under the Share Option Scheme and the commencement of dealings of the Shares on the Stock Exchange.

As at the date of this prospectus, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in connection with, taxation and, Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance of Hong Kong) to any member of the Group on or before the date on which the Share Offer becomes unconditional and other taxation which may be payable by any member of the Group on or before the date on which the Share Offer becomes unconditional save in certain circumstances including where provision has been made for such taxation in the audited accounts of any member of the Group for the Track Record Period.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands and the BVI.

Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in favour of the Group in respect of (a) the three factory buildings with a total gross floor area of approximately 3,795 sq.m. and a six-storey building with estimated gross floor area of approximately 5,151 sq.m. on Zone A; and (b) the two factory buildings of permitted gross floor area of approximately 52,535 sq.m., two dormitory buildings with permitted gross floor area of approximately 14,057 sq.m., a power and steam generating plant, a sewage treatment plant and a water treatment plant with an aggregate permitted gross floor area of approximately 14,139.3 sq.m. on Zone C as stated in the paragraph headed "Production facilities" in the section headed "Business" of this prospectus.

Under the deed of indemnity, in the event that any of the aforesaid buildings and structures are considered illegal, unauthorised structures, or the relevant PRC governmental authorities order demolition, forfeiture or rectification of such buildings/structures and payment of fine, or any member of the Group is not permitted to use or occupy or being evicted from the buildings and structures, each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen will use its/his best endeavour to secure for the use and occupation by the Group of a substitute property and jointly and severally indemnify each of the Group members against any costs, expenses, claims losses and liabilities arising in respect of (i) the demolition, forfeiture or rectification of the buildings/structures; (ii) any penalty and fine which may be imposed; (iii) any relocation of the production facilities and/or storage spaces of the Group and the business losses which the Group may suffer arising from such reallocation of the production facilities and/or storage spaces from the affected buildings/structures to the substitute property; (iv) the existing use, occupation and construction of the affected buildings/structures being unlawful or not permitted under the relevant laws and regulations; (v) any litigation, claim, action, prosecution, arbitration, mediation, alternative dispute resolution or other similar proceedings relating to affected buildings/structures.

Each of Exceed Standard, Power Strategy, Mr. Tai Chin Chun and Mr. Tai Chin Wen has given joint and several indemnities in respect of any costs, expenses, losses, claims, demands, proceedings and liabilities in connection with the breach of the Group of the Capital Contribution Provisions.

2. Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

3. Sponsor

Tai Fook Capital has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus, and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme.

4. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK$16,000 and are payable by the Company.

5. Promoter

The promoters of the Company are Mr. Tai Chin Chun and Mr. Tai Chin Wen. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid or proposed to be paid, allotted or given to the promoter in connection with the Share Offer or related transactions described in this prospectus within the two years preceding the date of this prospectus.

6. Consents of experts

Each of Tai Fook Capital, Ernst & Young, Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and GFE Law Office has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation certificates, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
Tai Fook Capital	a licensed corporation under the SFO
Ernst & Young	certified public accountants
Sallmanns (Far East) Limited	property valuers
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
GFE Law Office	legal advisers on PRC laws

Save as disclosed in the paragraph headed "Underwriters' interests in the Company" in the section headed "Underwriting" of this prospectus, none of the Sponsor, Ernst & Young, GFE Law Office, Conyers Dill & Pearman, Cayman and Sallmanns (Far East) Limited:

(a) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

7. Binding effect

This prospectus 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 so far as applicable.

8 Miscellaneous

(a) Save as disclosed in this prospectus:

(i) 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 for a consideration other than cash;

(ii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iii) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries;

(iv) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(v) save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Group since 30 April 2004 (being the date on which the latest audited combined financial statements of the Group were made up).

(b) The Company has no founder shares, management shares or deferred shares.

(c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

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 for registration were copies of the **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed "Consents of experts" in appendix VI, the statement of adjustments made by Ernst & Young in auditing the figures set out in their accountants' report set out in appendix I to this prospectus and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in appendix VI.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Sidley Austin Brown & Wood at 39/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including 27 September 2004:

– the memorandum of association of the Company and the Articles;

– the accountants' report prepared by Ernst & Young, the text of which is set out in appendix I and the related statement of adjustments;

– the letters from Ernst & Young and Tai Fook Capital in relation to the profit forecast of the Group for the year ending 31 December 2004, the texts of which are set out in appendix II to this prospectus;

– the comfort letter prepared by Ernst & Young in respect of the pro forma financial information of the Group, the text of which is set out in appendix III to this prospectus;

– the audited financial statements as have been prepared for the companies comprising the Group for each of the three years ended 31 December 2003 and the four months ended 30 April 2004 or the period since their respective dates of incorporation, where this is a shorter period;

– the letter, summary of values and valuation certificate prepared by Sallmanns (Far East) Limited relating to the property interest of the Group, the text of which are set out in appendix IV to this prospectus;

– the rules of the Share Option Scheme;

– the Companies Law;

– the letter of advice issued by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law as referred to in the paragraph headed "General" in appendix V to this prospectus;

- the service contracts referred to in the paragraph headed "Particulars of service contracts" in appendix VI to this prospectus;

- the material contracts referred to in the paragraph headed "Summary of material contracts" in appendix VI to this prospectus; and

- the written consents referred to in the paragraph headed "Consents of experts" in appendix VI to this prospectus.