CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Chen Jinyan *(Chairman)*
Mr. Chen Qinzhi *(Deputy chairman)*
Mr. Chen Dong *(Deputy chairman)*
Ms. Kong Ping
Mr. Tong Lap Hong*
Mr. Huang Yongfeng*

* *Independent Non-Executive Director*

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

Ernst & Young

AUDIT COMMITTEE

Mr. Tong Lap Hong
Mr. Huang Yongfeng

PRINCIPAL BANKERS

Standard Chartered Bank
Bank of China, Changle Sub-branch
Fuzhou City Commercial Bank
Bank of China, Fuzhou Central Sub-branch

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 305
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucestor Road
Wan Chai
Hong Kong

The Board of Directors (the "Board") of Art Textile Technology International Company Limited (the "Company") is pleased to announce the first unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2003, which were prepared in accordance with accounting principles generally accepted in Hong Kong and reviewed by the Company's audit committee, together with the comparative figures are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 31 December	
		2003	2002
		Unaudited consolidated	Unaudited pro forma combined
	Notes	**HK$'000**	HK$'000
TURNOVER	*4*	**201,508**	163,674
Cost of sales		**(142,936)**	(116,089)
GROSS PROFIT		**58,572**	47,585
Other revenue		**771**	39
Selling and distribution expenses		**(7,352)**	(6,255)
Administrative expenses		**(5,467)**	(2,948)
Other operating expenses		**(596)**	(795)
PROFIT FROM OPERATING ACTIVITIES	*5*	**45,928**	37,626
Finance costs		**(828)**	(866)
PROFIT BEFORE TAX		**45,100**	36,760
Tax	*6*	**(5,795)**	(4,935)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**39,305**	31,825
Interim dividend	*7*	**8,750**	–
EARNINGS PER SHARE	*8*		
– Basic		**HK4.9 cents**	HK4.5 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 31 December 2003 Unaudited consolidated HK$'000	At 30 June 2003 Audited pro forma combined HK$'000
NON-CURRENT ASSETS			
Fixed assets		136,064	105,201
CURRENT ASSETS			
Inventories		22,353	23,286
Trade receivables	*9*	40,308	37,591
Prepayments and other receivables		1,172	2,728
Cash and bank balances		141,011	66,422
		204,844	130,027
CURRENT LIABILITIES			
Interest-bearing bank borrowings, secured		24,151	24,151
Trade payables	*10*	22,647	20,385
Accrued liabilities and other payables		14,051	10,455
Tax payable		3,131	2,601
Due to directors	*11*	–	13,723
Due to a related company	*12*	–	3,446
Proposed interim dividend	*7*	8,750	–
		72,730	74,761
NET CURRENT ASSETS		132,114	55,266
		268,178	160,467
REPRESENTED BY:			
Issued capital	*13*	8,750	20
Reserves		259,428	160,447
		268,178	160,467

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Reserves					
	Issued capital	Share premium	Capital reserve	Statutory reserve fund	Retained profits	Total reserves	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2003 (audited)	**20**	**–**	**136**	**11,792**	**148,519**	**160,447**	**160,467**
Capitalisation issue of share	**6,980**	**(6,980)**	**–**	**–**	**–**	**(6,980)**	**–**
New issue of shares	**1,750**	**85,750**	**–**	**–**	**–**	**85,750**	**87,500**
Share issue expenses	**–**	**(10,344)**	**–**	**–**	**–**	**(10,344)**	**(10,344)**
Net profit for the period	**–**	**–**	**–**	**–**	**39,305**	**39,305**	**39,305**
Transfer of statutory reserve fund	**–**	**–**	**–**	**8,155**	**(8,155)**	**–**	**–**
Proposed interim dividend	**–**	**–**	**–**	**–**	**(8,750)**	**(8,750)**	**(8,750)**
At 31 December 2003 (unaudited)	**8,750**	**68,426**	**136**	**19,947**	**170,919**	**259,428**	**268,178**
At 1 July 2002 (audited)	20	–	58	7,574	84,005	91,637	91,657
Net profit for the period	–	–	–	–	31,825	31,825	31,825
Transfer of statutory reserve fund	–	–	–	4,218	(4,218)	–	–
At 31 December 2002 (unaudited)	20	–	58	11,792	111,612	123,462	123,482

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December	
	2003	2002
	Unaudited consolidated	Unaudited pro forma combined
	HK$'000	HK$'000
Net cash inflow from operating activities	**47,877**	23,334
Net cash outflow from investing activities	**(36,130)**	(26,270)
Net cash inflow from financing activities	**62,842**	4,228
NET INCREASE IN CASH AND CASH EQUIVALENTS	**74,589**	1,292
Cash and cash equivalents at beginning of period	**66,422**	17,204
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**141,011**	18,496
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**141,011**	18,496

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 22 April 2003. Its ultimate holding company is Talent Crown Investment Limited ("Talent Crown"), a company incorporated in the British Virgin Islands (the "BVI"), and the entire issued share capital of which is beneficially owned by Mr. Chen Dong, a director of the Company.

Group reorganisation

Pursuant to the group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "SEHK") on 10 September 2003 (the "Listing"), the Company became the holding company of the companies now comprising the Group on 15 August 2003. This was accomplished by acquiring the entire issued share capital of Right Lane International Limited ("Right Lane"), the then holding company of other subsidiaries (the "Subsidiaries"), in consideration of crediting as fully paid 1,000,000 shares in the Company allotted and issued on 5 June 2003 and the allotment and issue of an additional 1,000,000 shares in the Company to the former shareholders of Right Lane. Further details of the Group Reorganisation are set out in the Company's prospectus dated 28 August 2003 (the "Prospectus").

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 15 August 2003, according to Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", the Company, together with its Subsidiaries, should only be regarded and accounted for as a continuing group in the preparation of the Group's consolidated financial statements for the year ending 30 June 2004. Nevertheless, for the benefit of shareholders, unaudited condensed consolidated financial statements for the six months ended 31 December 2003 have been presented on the basis that the Company is treated as the holding company of the Subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the Subsidiaries on 15 August 2003. The comparative unaudited condensed pro forma combined profit and loss accounts of the Group for the six months ended 31 December 2002 has been prepared on the basis that the Group, resulting from the Group Reorganisation, had been in place at 1 July 2002 or since their respective dates of incorporation/establishment, where this is a shorter period. In the opinion of the directors, the condensed consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

Upon the completion of the Group Reorganisation, the Company has direct or indirect interests in the Subsidiaries. All the Subsidiaries are private companies or, if incorporated/established outside Hong Kong, have substantially similar characteristics to a private company that incorporated in Hong Kong.

The shares of the Company were listed on the Main Board of the SEHK on 10 September 2003.

Corporation information

The principal place of business of the Company is located at Room 305, Carpo Commercial Building, 18-20 Lyndhurst Terrace, Central, Hong Kong.

Had the Group Reorganisation been completed on 1 July 2002 and had the Group been in existence since that date, the Group's principal activities would have remained unchanged and were engaged in the manufacture and sale of finished woven fabrics during the period from 1 July 2002 to 31 December 2003.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these condensed consolidated financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group, or since the dates of incorporation of the companies now comprising the Group to 31 December 2003. Although the Group did not legally exist until 15 August 2003, in the opinion of the directors, the presentation of such condensed consolidated financial information prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

Basis of preparation

These unaudited condensed consolidated financial statements have been prepared in accordance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies and basis of preparation of these unaudited condensed consolidated financial statements are consistent with those used in the audited financial statements for the year ended 30 June 2003, except that the Group has adopted the revised SSAP 12 "Income Tax" for the first time in the preparation of these unaudited condensed consolidated financial statements for the period.

SSAP 12 prescribed the basis for accounting for income taxes payable or recoverable, arising the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carried forward of unused tax losses (deferred tax).

The adoption of the SSAP 12 has had no material impact on these condensed consolidated financial statements on the amounts recorded for income taxes. Accordingly, no prior period adjustment has been made.

3. SEGMENT INFORMATION

During the six months ended 31 December 2003, the Group has only one business segment, which is the manufacture and sale of finished woven fabrics and accordingly, no further business segmental analysis is presented. In addition, over 99% of the Group's revenue and results are derived from customers based in the People's Republic of China (the "PRC") and its operating assets and liabilities are also based in the PRC. Accordingly, no further geographic segmental analysis is presented.

4. TURNOVER

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

5. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 31 December	
	2003	2002
	Unaudited consolidated	Unaudited pro forma combined
	HK$'000	HK$'000
Cost of inventories sold	**142,936**	116,089
Depreciation	**5,244**	4,397
Loss on disposal of fixed assets	**109**	46
Interest income	**(86)**	(39)

6. TAX

	For the six months ended 31 December	
	2003	2002
		Unaudited
	Unaudited	pro forma
	consolidated	combined
	HK$'000	HK$'000
Current period provision:		
Hong Kong	**–**	–
The PRC	**5,795**	4,935

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2003 (2002: Nil).

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan") is a subsidiary in the PRC which is exempted from the PRC corporate income tax ("CIT") for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from CIT for the following three years under the Income Tax Law of the PRC. The first profit-making year of Fuzhou Huaguan was the year ended 31 December 1999. The current tax rate applicable to Fuzhou Huaguan is 12%.

7. INTERIM DIVIDEND

	For the six months ended 31 December	
	2003	2002
		Unaudited
	Unaudited	pro forma
	consolidated	combined
	HK$'000	HK$'000
Interim-HK1 cent (2002: Nil) per ordinary share	**8,750**	–

The Board resolved to declare an interim dividend of HK1 cent (2002: Nil) per share for the six months ended 31 December 2003 payable to the shareholders whose names appear on the register of members of the Company on 26 March 2004. Dividend warrants will be despatched to the shareholders of the Company on or before 2 April 2004.

8. EARNINGS PER SHARE

The calculation of basic earnings per share, on a consolidation basis, is based on the Group's unaudited condensed consolidated net profit from ordinary activities attributable to shareholders for the period of HK$39,305,000 (2002: HK$31,825,000), and 807,472,826 shares (2002: 700,000,000) deemed to have been issued during the period on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 698,000,000 shares of the Company had been completed on 1 July 2002. The weighted average number of share used in the calculation of earnings per share for current period also includes the 175,000,000 shares issued on the Listing.

Diluted earnings per share amounts have not been presented as the Company did not have any potential ordinary shares during the six months ended 31 December 2003 (2002: Nil).

9. TRADE RECEIVABLES

A defined credit policy is maintained within the Group. The general credit term ranges from 45 days to 90 days, except for certain well-established customers with long business relationships with the Group, where the terms are extended. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the senior management of the Group.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provision for doubtful debts, is as follows:

	At 31 December 2003 **Unaudited consolidated HK$'000**	At 30 June 2003 Audited pro forma combined HK$'000
Within 90 days	**40,308**	37,591

10. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	At 31 December 2003 Unaudited consolidated HK$'000	At 30 June 2003 Audited pro forma combined HK$'000
Within 90 days	**22,647**	20,385

11. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and were fully settled in August 2003.

12. DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest-free and was fully settled in August 2003.

13. SHARE CAPITAL

Share

The following is a summary of movements in the authorised and issued share capital of the Company:

	Notes	Number of ordinary shares	Nominal value HK$'000
Authorised:			
On incorporation, at 30 June 2003 and at 1 July 2003	*(i)*	1,000,000	10
Increase in authorised share capital	*(ii)*	1,999,000,000	19,990
At 31 December 2003		2,000,000,000	20,000
Issued and fully paid:			
Allotted and issued at nil paid	*(i)*	1,000,000	–
On acquisition of Right Lane *			
– nil paid shares credited as fully paid	*(ii) (a)*	–	10
– consideration shares issued	*(ii) (b)*	1,000,000	10
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	*(iii)*	698,000,000	–
Pro forma share capital of the Group at 30 June 2003 and at 1 July 2003		700,000,000	20
Capitalisation of the share premium account	*(iii)*	–	6,980
New issue of shares	*(iv)*	175,000,000	1,750
At 31 December 2003		875,000,000	8,750

* Pursuant to the basis of presentation as set out in note 2 to the condensed consolidated financial statements, the unaudited condensed consolidated financial statements of the Group have been presented as if the Group Reorganisation as set out in note 1 to the condensed consolidated financial statements was completed on 1 July 2002.

The following changes in the Company's authorised and issued share capital took place during the period from 22 April 2003 (date of incorporation) to 31 December 2003:

(i) On 22 April 2003 (date of incorporation), the authorised share capital of the Company was HK$10,000 divided into 1,000,000 shares of HK$0.01 each and all of which were allotted and issued at nil paid on 5 June 2003. The shares were subsequently credited as fully paid as described in (ii) (a) below.

(ii) Pursuant to a written resolution of all shareholders of the Company passed on 15 August 2003, the authorised share capital of the Company was increased from HK$10,000 to HK$20,000,000 by the creation of additional 1,999,000,000 shares of HK$0.01 each; and the directors of the Company were authorised:

    (a) to credit as fully paid at par the aggregate of 1,000,000 shares of HK$0.01 each allotted and issued nil paid on 5 June 2003 as set out in (i) above; and

    (b) to further allot and issue an aggregate of 1,000,000 shares of HK$0.01 each, credited as fully paid

    as consideration of and in exchange for the entire issued share capital of Right Lane.

(iii) Pursuant to a written resolution of all shareholders of the Company passed on 16 August 2003, an aggregate of 698,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK$6,980,000 from the share premium account, to the then existing shareholders of the Company, whose names appeared in the register of the Company on 16 August 2003, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public.

(iv) On 10 September 2003, the Company issued 175,000,000 new shares of HK$0.01 each at HK$0.50 per share to the public.

Share options

As at 31 December 2003, no share options were granted under the Company's share option scheme.

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain offices under operating lease arrangements and the leases were negotiated for terms ranging from one to three years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2003 Unaudited consolidated HK$'000	30 June 2003 Audited pro forma combined HK$'000
Within one year	1,207	839
In the second to fifth years, inclusive	435	1,014
Total	1,642	1,853

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments at 31 December 2003:

	31 December 2003 Unaudited consolidated HK$'000	30 June 2003 Audited pro forma combined HK$'000
Contracted, but not provided for in respect of:		
Construction of land and buildings	10,185	4,553
Acquisition of land use right	–	166
Acquisition of plant and machinery	5,748	–
Leasehold improvements of offices	–	13
Research costs	–	105
	15,933	4,837

The Company did not have any commitments as at 31 December 2003.

16. RELATED PARTY TRANSACTION

At 1 July 2002, an interest-bearing bank borrowing was secured by a corporate guarantee executed by a related company whose substantial shareholder is a relative of the directors of the Company. The above corporate guarantee was released and replaced by the pledge of certain leasehold land and buildings of the Group before 1 July 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

SUCCESSFUL LISTING

On 10 September 2003, the Company's successful listing on the Main Board of the SEHK represents a major milestone for the Group. With the Listing, the Group is better positioned to take advantage of acquisition and organic growth opportunities.

BUSINESS, OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven fabrics targeting at mid to high-end market in the PRC. The Group has vertically integrated its production process, which includes research and development, raw fabric weaving, dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's products are used for manufacturing men's and women's fashions such as outer garments, eider down wear, trousers, windbreakers and jackets.

During the six months ended 31 December 2003, the Group purchased plant and machinery of approximately HK$29,891,000 and incurred construction in progress of approximately HK$5,890,000. The Group has launched the new products under Nylon-cotton Fabrics Series (錦綿系列) and High-end Strongly-combined Knitted Fabrics Series (高檔強黏針織布). Nylon-cotton Fabrics is manufactured by the cross-weaving of nylon and pure cotton. This category of fabrics is generally used for the manufacture of windbreaker and jackets. High-end Strongly-combined Knitted Fabrics is manufactured by strong twisting and high-temperature setting of yarns. This category of fabrics has the characteristics of strong draping, breathability, abrasion resistance and is generally used for the manufacture of women's skirts and pants.

The Group was awarded the "Innovative Award for New Product" (新產品創新獎) by the Textile Engineering Society in Fujian Province due to its devotion in research and development and application of down surface during the period. The Group also continued to put effort on research and develop new products in a view to meet the ever changing market demand for textile products and garments.

Turnover

For the six months ended 31 December 2003, the Group recorded a turnover of approximately HK$201,508,000 (2002: HK$163,674,000), representing an increase of approximately 23% in comparison to the previous period. The increase in turnover was attributable to (i) the continuing demand for Elastic Fabrics Series; (ii) launching of new products under the Combined Fabrics Series; and (iii) the Group's participation in trade show in Shanghai and Dubai. The sale of Special Fiber Series and Pattern Series continued to show a low percentage to total sale since the Group has put more resources on the production of Elastic Fabrics Series and Combined Fabrics Series, which had higher profit margin, and the launch of Nylon-cotton Fabrics Series and High-end Strongly-combined Knitted Fabrics Series. During the six months ended 31 December 2003, the Group has commenced its sales to the overseas customers directly.

Gross profit

The gross profit margin of the Group steadily maintained at approximately 29% in both the period under review and the corresponding period in 2002.

Net profit

The Group's net profit attributable to shareholders for the six months ended 31 December 2003 was approximately HK$39,305,000 (2002: HK$31,825,000), approximately 23.5% more than that in 2002. Net profit margin for the six months ended 31 December 2003 was approximately 19.5%, which was maintained at the same level with that of 2002.

Expenses

Selling and distribution expenses amounted to approximately HK$7,352,000 (2002: HK$6,255,000), representing approximately 3.6% (2002: 3.8%) of turnover for the six months ended 31 December 2003, which is comparable to the corresponding period in 2002.

Administrative expenses amounted to approximately HK$5,467,000 (2002: HK$2,948,000), representing approximately 2.7% (2002: 1.8%) of turnover for the six months ended 31 December 2003. The increase in administrative expenses was mainly due to the hiring of additional management professionals and related expenses.

Other operating expenses amounted to approximately HK$596,000 (2002: HK$795,000), representing approximately 0.3% (2002: 0.5%) of turnover for the six months ended 31 December 2003. Decrease in amount was attributable to no bad debts incurred for the current period.

Finance costs of approximately HK$828,000 (2002: HK$866,000) were maintained at the same level with that of 2002.

FUTURE PLANS AND PROSPECTS

As a result of the improvement of quality of life in the PRC, the demand for fashionable clothing and quality fabrics increases. Moreover, since the entry of the PRC into the World Trade Organisation, the world-wide quota on PRC-origin imports of textile products will be gradually removed. The Board believes that the above creates ample opportunity for the development of the Group's business.

In order to diversify the customer base of the Group and tap the market potential, the Group plans to expand its distribution network to the other textile markets in the PRC. The Group intends to expand its distribution network by, on one hand, establishing sales points or appointing distribution agents in these new distribution locations and, on the other hand, strengthening its existing sales and marketing team in order to further promote the Group's products. In addition, the Group has participated in the largest textile fairs held in Beijing and Shanghai, the PRC and that held in Dubai, Saudi Arabia, so as to penetrate into overseas market.

To cope with the expected growth in demand of the Group's product, the Group has commenced the establishment of a new production line in January 2003, which is located adjacent to the Group's factory premises for the existing production line for fabric dyeing. The Board expects that the establishment of the new production line will be put into commercial production before the end of second quarter of 2004. After the establishment of the new production line, it is expected that the Group will have an annual production capacity for fabric dyeing of approximately 51,100,000 meters, representing an increase of approximately 61% from the existing annual production capacity for fabric dyeing.

As a result of the continuous change in the trend of the textile and garment markets, the Group will continue to put effort in research and development of new products to suit the market needs. It is currently in the progress of development of Pure Cotton Series, which is expected to be launched in the fourth quarter of 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group had net current assets of HK$132,114,000 (30 June 2003: HK$55,266,000). The Group maintains a strong financial position by financing its operations with the proceeds from the Company's initial public offer and internally generated resources. As at 31 December 2003, the Group had cash and bank deposits of HK$141,011,000 (30 June 2003: HK$66,422,000). The current ratio of the Group was 282% (30 June 2003: 174%).

Shareholders' fund of the Group as at 31 December 2003 was HK$268,178,000 (30 June 2003: HK$160,467,000). The total bank borrowings of the Group as at 31 December 2003, repayable within 12 months from the balance sheet date, were denominated in RMB25,600,000, equivalent to HK$24,151,000 (30 June 2003: HK$24,151,000), giving a gross debt gearing (i.e. total bank borrowings/net assets) of 9.0% (30 June 2003: 15.1%).

The financial health of the Group has been strong throughout the period as indicated by the low gearing and high current ratio.

FINANCING

As at 31 December 2003, the total banking and loan facilities of the Group amounted to approximately HK$24,151,000, all of which was utilised.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

The Group also obtained equity financing amounting to approximately HK$77,100,000 by listing the Company's shares on the Main Board of the SEHK on 10 September 2003. With the support of a shareholder base comprised of predominately long term institutional investors, the Group is in an enviable position to capture the fund market potential in the PRC.

CAPITAL STRUCTURE

Since the listing of the Company's shares on the Main Board of the SEHK on 10 September 2003, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

For the six months ended 31 December 2003, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in either Hong Kong dollar or Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings of the Group were denominated in Renminbi and at fixed rate basis. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

CHARGE ON GROUP'S ASSETS

As at 31 December 2003, certain leasehold land and buildings, and plant and machinery of the Group with aggregate net book values of approximately HK$24,061,000 (30 June 2003: HK$24,970,000) and approximately HK$17,748,000 (30 June 2003: HK$19,379,000) were pledged to banks to secure bank facilities granted.

STAFF POLICY

As at 31 December 2003, the Group had 356 and 4 employees in the PRC and Hong Kong, respectively. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Also, the Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations.

The Group also provides periodic internal training to its staff.

Each of the independent non-executive directors is appointed for an initial term of 1 year commencing from 1 September 2003.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its Listing on the SEHK in September 2003, after deduction of related expenses, amounted to approximately HK$77.1 million. These proceeds were partly applied up to 31 December 2003 in the following manner and in accordance with the proposed applications set out in the Prospectus:

– as to approximately HK$32 million for construction of additional production line for fabric dyeing and its ancillary facilities;

– as to approximately HK$0.8 million for expansion of distribution network and promotion of the Group's products and trademark;

– as to approximately HK$0.5 million for product development (including the establishment of a new research and development centre and acquisition of research and development facilities);

– as to approximately HK$9.1 million for general working capital of the Group.

The remaining net proceeds as at 31 December 2003 were placed with banks in the PRC as deposits. The Board is of the opinion that the remaining proceeds will be applied in the future for their intended uses as set out in the Prospectus.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At as 31 December 2003, the directors have the following interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which have to be notified to the Company and the SEHK 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 the provisions of the SFO) or which is required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which is required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the SEHK:

Name	Number of shares	Capacity	Percentage of holding
Mr. Chen Dong	581,910,000 (Note) Long position	Interest of a controlled corporation	66.5%

Note: The shares are held by Talent Crown, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and the son of Mr. Chen Qinzhi and all of them are the executive directors of the Company.

Save as disclosed above, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At as 31 December 2003, the following, not being a director or chief executive of the Company, has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Number of shares	Percentage of holding
Talent Crown (Note)	581,910,000 Long position	66.5%

Note: Talent Crown is a company incorporated in the BVI. The entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and the son of Mr. Chen Qinzhi and all of them are the executive directors of the Company.

Save as disclosed above, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which was required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company did not have any significant contingent liabilities.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 25 March 2004 to Friday, 26 March 2004, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the entitlement to the interim dividend, all transfers of shares, accompanied by the relevant share certificates and the appropriate transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 24 March 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

AUDIT COMMITTEE

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of the SEHK (the "Listing Rules"), the Company set up an audit committee (the "Committee") on 16 August 2003. The Committee was established with written terms of reference and has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee now comprises two members, both being independent non-executive directors of the Company. The Group's unaudited condensed consolidated financial statements for the six months ended 31 December 2003 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information which would reasonably indicate that the Company is no, or was not for any part of the period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

On behalf of the Board
Chen Jinyan
Chairman

Hong Kong, 10 March 2004