



錦藝紡織科技國際有限公司  
ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED  
*(incorporated in the Cayman Islands with limited liability)*

Interim Report

2004

## Corporate Information

### Board of Directors

Mr. Chen Jinyan (*Chairman*)  
Mr. Chen Qinzhi (*Deputy Chairman*)  
Mr. Chen Dong (*Deputy Chairman*)  
Ms. Kong Ping  
Mr. Huang Yongfeng\*  
Mr. Yu Zhong Ming\*  
Mr. Lo Kin Chung\*

\* *Independent non-executive Director*

### Company Secretary

Mr. Ma Man Wai

### Auditors

Deloitte Touche Tohmatsu

### Audit Committee

Mr. Huang Yongfeng  
Mr. Yu Zhong Ming  
Mr. Lo Kin Chung

### Principal Bankers

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

## Head Office and Principal Place of Business in Hong Kong

Room 2402, 24th Floor  
Wing On Centre  
111 Connaught Road Central  
Hong Kong

### 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 Gloucester Road  
Wan Chai  
Hong Kong

## INDEPENDENT REVIEW REPORT

# Deloitte.

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TO THE BOARD OF DIRECTORS OF  
**ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED**  
(incorporated in the Cayman Islands with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 4 to 15.

### Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently

applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 December 2004.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

14 March 2005

The Board of Directors (the "Board") of Art Textile Technology International Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2004 (the "Period"), which were prepared in accordance with accounting principles generally accepted in Hong Kong and reviewed by the auditors and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 31 December</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
	Notes		
Turnover	4	<b>300,483</b>	201,508
Cost of sales		<b>(211,961)</b>	(142,936)
Gross Profit		<b>88,522</b>	58,572
Other operating income		<b>625</b>	771
Selling and distribution costs		<b>(9,727)</b>	(7,352)
Administrative expenses		<b>(7,127)</b>	(5,467)
Other operating expenses		<b>(293)</b>	(596)
Profit from operations	5	<b>72,000</b>	45,928
Finance costs	6	<b>(1,186)</b>	(828)
Profit before taxation		<b>70,814</b>	45,100
Income tax expense	7	<b>(18,832)</b>	(5,795)
Net profit for the period		<b>51,982</b>	39,305
Interim dividend	8	<b>8,766</b>	8,750
EARNINGS PER SHARE	9		
– Basic, in Hong Kong cents		<b>5.93</b>	4.87
– Diluted, in Hong Kong cents		<b>5.79</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	Notes	31 December 2004 HK\$'000 (unaudited)	30 June 2004 HK\$'000 (audited)
Non-Current Assets			
Property, plant and equipment	10	166,541	152,409
Current Assets			
Inventories		29,267	24,073
Trade and other receivables	11	64,559	47,762
Bank balances and cash		264,541	156,066
		<b>358,367</b>	227,901
Current Liabilities			
Trade and other payables	12	55,368	34,207
Tax liabilities		12,941	8,316
Dividend payable		13,148	–
Bank borrowings, secured		24,151	32,642
		<b>105,608</b>	75,165
Net Current Assets			
		<b>252,759</b>	152,736
		<b>419,300</b>	305,145
Capital and Reserves			
Share capital	13	8,765	8,765
Dividend reserve		8,766	13,148
Other reserves		326,448	283,232
		<b>343,979</b>	305,145
Non-Current Liability			
Convertible notes	14	75,321	–
		<b>419,300</b>	305,145

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Share capital	Share premium	Merger reserve	Statutory reserve fund	Dividend reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2003	20	-	136	11,792	-	148,519	160,467
Issue of shares at premium through initial public offer	1,750	85,750	-	-	-	-	87,500
Issue of shares by capitalisation of share premium account	6,980	(6,980)	-	-	-	-	-
Shares issue expenses	-	(10,344)	-	-	-	-	(10,344)
Net profit for the period	-	-	-	-	-	39,305	39,305
Transfer	-	-	-	8,155	-	(8,155)	-
Proposed interim dividend	-	-	-	-	8,750	(8,750)	-
At 31 December 2003 and 1 January 2004	8,750	68,426	136	19,947	8,750	170,919	276,928
Exercise of share options	15	903	-	-	-	-	918
Net profit for the period	-	-	-	-	-	36,049	36,049
Transfer	-	-	-	3,655	-	(3,655)	-
Interim dividend paid	-	-	-	-	(8,750)	-	(8,750)
Proposed final dividend	-	-	-	-	13,148	(13,148)	-
At 30 June 2004 and 1 July 2004	<b>8,765</b>	<b>69,329</b>	<b>136</b>	<b>23,602</b>	<b>13,148</b>	<b>190,165</b>	<b>305,145</b>
Net profit for the period	-	-	-	-	-	51,982	51,982
Transfer	-	-	-	5,445	-	(5,445)	-
Final dividend declared	-	-	-	-	(13,148)	-	(13,148)
Proposed interim dividend	-	-	-	-	8,766	(8,766)	-
At 31 December 2004	<b>8,765</b>	<b>69,329</b>	<b>136</b>	<b>29,047</b>	<b>8,766</b>	<b>227,936</b>	<b>343,979</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	<b>Six months ended 31 December</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>53,903</b>	53,142
Tax paid	<b>(14,207)</b>	(5,265)
Net cash from (used in) investing activities	<b>310</b>	(36,130)
Net cash from (used in) financing activities		
Net proceed on issue of convertible notes	<b>75,259</b>	–
Net proceed on issue of shares	–	77,156
Repayments of bank borrowings	<b>(8,491)</b>	–
Other financing cash inflow (outflow)	<b>1,701</b>	(14,314)
Net increase in cash and cash equivalents	<b>108,475</b>	74,589
Cash and cash equivalents at beginning of the period	<b>156,066</b>	66,422
Cash and cash equivalent at end of the period represented by bank balances and cash	<b>264,541</b>	141,011



## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

### **1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practices No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### **2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the six months ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2004.

In the current period, the Group has adopted the accounting policy in relation to convertible notes. Convertible notes are separately disclosed and regarded as liabilities. The cost incurred in connection with the issue of convertible notes are deferred and are amortised over the period of the convertible notes so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the share premium account.

### 4. SEGMENT INFORMATION

No analysis on business segment is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the manufacture and sale of finished woven fabrics. In addition, no geographical market analysis is provided as the Group's turnover and contribution to profit from operations were substantially derived from the People's Republic of China (the "PRC") and the assets are substantially located in the PRC.

## 5. PROFIT FROM OPERATIONS

### Six months ended 31 December

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	8,420	5,244
Interest income	(593)	(86)
Loss on disposal of property, plant and equipment	—	109

## 6. FINANCE COSTS

### Six months ended 31 December

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,040	828
Convertible notes	84	—
Amortisation of deferred expenditure on convertible notes	62	—

## 7. INCOME TAX EXPENSE

	Six months ended 31 December	
	2004 HK\$'000	2003 HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	<b>18,832</b>	5,795

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not generate any assessable profits arising in Hong Kong for both periods.

Fuzhou Huaguan Knitting and Springing Co., Ltd. ("Fuzhou Huaguan") is a subsidiary of the Company established in the PRC which is exempted from EIT for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from EIT 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 tax rate applicable to Fuzhou Huaguan was 12% for the period from 1 January 2001 up to 31 December 2003 and was increased to 24% thereafter.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

## 8. INTERIM DIVIDEND

The directors have proposed that an interim dividend of HK1 cent per share (2003: HK 1 cent per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 1 April 2005, amounting to HK\$8,766,000 (2003: HK\$8,750,000). Dividend warrants will be dispatched to the shareholders of the Company on or before 25 April 2005.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Six months ended 31 December</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
Earnings:		
Profit for the period and earnings for the purposes of basic earnings per share	<b>51,982</b>	39,305
Effect of dilutive potential ordinary shares in respect of convertible notes	<b>146</b>	–
Earnings for the purposes of diluted earnings per share	<b>52,128</b>	39,305
	<b>'000</b>	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>876,500</b>	807,473
Effect of dilutive potential ordinary shares in respect of:		
Share options	<b>4,906</b>	–
Convertible notes	<b>19,379</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>900,785</b>	807,473

No diluted earnings per share has been presented for the six months ended 31 December 2003 because there were no potential ordinary shares outstanding during that period.

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group spent approximately HK\$22,552,000 (1.7.2003 to 31.12.2003: HK\$36,107,000) on the construction of its new manufacturing plant in the PRC in order to increase its manufacturing capacity. The details of capital commitment were disclosed in note 15.

## 11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranges from 45 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>31.12.2004</b> <b>HK\$'000</b>	30.6.2004 HK\$'000
0 – 60 days	<b>56,736</b>	45,202
61 – 90 days	<b>1,597</b>	236
Over 90 days	<b>–</b>	155
Trade receivables	<b>58,333</b>	45,593
Other receivables	<b>6,226</b>	2,169
	<b>64,559</b>	47,762

## 12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>31.12.2004</b> <b>HK\$'000</b>	30.6.2004 HK\$'000
Trade payables – 0 – 60 days	<b>34,382</b>	22,595
Other payables	<b>20,986</b>	11,612
	<b>55,368</b>	34,207

### 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 July 2004 and 31 December 2004	2,000,000,000	20,000
Issued and fully paid:		
At 1 July 2004 and 31 December 2004	876,500,000	8,765

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### 14. CONVERTIBLE NOTES

	<b>31.12.2004 HK\$'000</b>	30.6.2004 HK\$'000
Convertible notes due 2007	<b>78,000</b>	–
Less: unamortised deferred expenditure	<b>(2,679)</b>	–
	<b>75,321</b>	–

On 6 December 2004, the Company issued the 1.5% original tranche 1 unsecured convertible notes (the "CB One") of US\$10,000,000 which are due 2007 to Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), an independent investor.

The CB One bears interest at 1.5% per annum, which is payable semi-annually in arrears.

#### 14. CONVERTIBLE NOTES (CONTINUED)

CSFB has an option to convert the CB One into ordinary shares of the Company either at floating price or fixed price. Details of the CB One are set out in an announcement made by the Company on 8 December 2004. The ordinary shares to be issued upon such conversion rank pari passu in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

#### 15. CAPITAL COMMITMENTS

	<b>31.12.2004</b> <b>HK\$'000</b>	30.6.2004 HK\$'000
Capital expenditure in respect of construction of land and buildings contracted for but not provided in the condensed financial statements	<b>368</b>	472



## Management Discussion and Analysis

### 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 include 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; and household products such as sofa and curtain.

To cope with the expected growth in demand of the Group's products, the Group completed the installation of its new state-of-the-art dyeing production line and auxiliary facilities in May 2004, which are located adjacent to the Group's factory premises for the existing production line for fabric dyeing. This new production line eventually increased the production capacity by 82%, from 14.6 million meters in July to December 2003 to 26.6 million meters in the same period of 2004.

During the period ended 31 December 2004, the Group had established sales liaison offices in Shanghai, Shishi and Guangzhou, expanded its sales and marketing team and participated the textile fairs held in France, Shanghai and Hong Kong in order to further expand its local and overseas customer base.

The Group was awarded the "Innovative Award of New Product" by the Textile Engineering Society of Fujian Province (福建省紡織工程學會) during the current period. In addition, the Group had continuously researched and developed new products to meet the ever-changing needs of the textile and garment market, particularly in sports wears.

## Turnover

For the financial period ended 31 December 2004, the Group recorded a turnover of approximately HK\$300,483,000 (2003: HK\$201,508,000), representing an increase of approximately 49.1% in comparison to the previous financial period. The increase in turnover was attributable to (i) the market demand of down, men and ladies' wear increased with the number of customers; (ii) the Group's participation in textile fairs in France, Shanghai and Hong Kong; (iii) the well established distribution network around the major textile markets in the PRC; (iv) the smooth implementation of the second production line which increased the production capacity of the Group; and (v) increase in number of prestigious overseas customers as a result of direct sales to them.

## Gross Profit

The gross profit margin of the Group maintained at the same level in both periods with 29.5% in the current period (2003: 29.1%). The overall production capacity of the Group increased as a result of the smooth implementation of the second production line; hence the cost of sales was lower due to the economies of scale of production.

## Net Profit

The Group's net profit attributable to shareholders for the financial period ended 31 December 2004 was approximately HK\$51,982,000, (2003: HK\$39,305,000), approximately 32.3% more than that in 2003. Net profit margin for the period ended 31 December 2004 was approximately 17.3% (2003: 19.5%). The decrease in net profit margin compared with previous period was due to the increase of the effective tax rate as a result of the expiration of tax holidays of a major subsidiary in the PRC.

## Expenses

Selling and distribution costs amounted to approximately HK\$9,727,000 (2003: HK\$7,352,000), representing approximately 3.2% (2003: 3.7%) of turnover for the period ended 31 December 2004. The slight decrease in percentage of turnover was due to the diminishment of the commission rates paid to the major distributors in the Period.

Administrative expenses amounted to approximately HK\$7,127,000 (2003: HK\$5,467,000), representing approximately 2.4% (2003: 2.7%) of turnover for the Period. Administrative expenses increased by approximately 30.4% when compared with that of 2003. It was mainly due to the hiring of additional management professional and the operation of administration office in Hong Kong for the whole period and the establishment of sales liaison offices in Shanghai, Shishi and Guangzhou.

Other operating expenses amounted to approximately HK\$293,000 (2003: HK\$596,000), representing approximately 0.1% (2003: 0.3%) of turnover for the Period. Decrease in amount was attributable to more raw materials consumed in 2003 for the purpose of testing and developing latest products that became popular to current customers.

Finance costs amounted to approximately HK\$1,186,000 (2003: HK\$828,000). Increase in amount was a result of interest payments of a bank loan of RMB9,000,000 and professional charges and interest payments of the CB One during the Period.

## **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 PRC's entry into the World Trade Organisation and elimination of textile quotas in the beginning of 2005, the world-wide quota on the PRC-origin imports of textile products are gradually removed and consequently, more European and American textile companies commence their sourcing from China where production costs are much lower than other places. The Directors believe that the above creates ample opportunities for the development of the Group's business.

During the six months ended 31 December 2004, the Group constructed a new weaving factory which is adjacent to the new dyeing production line that commenced the production in May 2004. The new weaving factory will be completed and expected to commence commercial production after conducting trial run in the second quarter of 2005. The production capacity of raw fabrics will be increased by 63% from 7.9 million meters to 12.9 million meters per annum. The new weaving factory will ensure steadier supply and better quality control of raw fabrics for the dyeing process, which in turn, will reduce production costs and shorten the production cycle.

In order to diversify the customer base of the Group and tap the market potential, the Group plans to strengthen its distribution network to the other textile markets in the PRC and overseas textile markets. The Group intends to continue its expansion of its distribution network by, on one hand, establishing sales points or appointing distribution agents in these new distribution locations and, on the other hand, concreting its existing sales and marketing team in order to further promote the Group's product. In addition, the Group will continuously participate world wide textile fairs so as to attract more overseas customers and upgrade its quality and technology in fabrics production.

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 meet the market needs.

### **Liquidity and Financial Resources**

As at 31 December 2004, the Group had net current assets of HK\$252,759,000 (30 June 2004: HK\$152,736,000). The Group maintains a strong financial position by financing its operations with the CB One and internally generated resources. As at 31 December 2004, the Group had cash and bank deposits of HK\$264,541,000 (30 June 2004: HK\$156,066,000). The current ratio of the Group was 339% (30 June 2004: 303%).

Shareholders' fund of the Group as at 31 December 2004 was HK\$343,979,000 (30 June 2004: HK\$305,145,000). As at 31 December 2004, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, were denominated in RMB25,600,000, equivalent to HK\$24,151,000 (30 June 2004: HK\$32,642,000) and the CB One, due on 6 December 2007, was denominated in US\$10,000,000, equivalent to HK\$78,000,000 (30 June 2004: Nil), together giving a gross debt gearing (i.e. total borrowings/net assets) of 29.7% (30 June 2004: 10.7%).

The financial health of the Group has been strong throughout the Period as indicated by the above figures.

## Financing

As at 31 December 2004, the total banking and loan facilities of the Group amounted to about HK\$24,151,000 (30 June 2004: HK\$32,642,000), all of which was utilized. The CB One, denominated in US\$10,000,000, equivalent to HK\$78,000,000, was also fully received by the Group.

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 terms.

## 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2003, after deduction of related expenses, amounted to approximately HK\$77,100,000. These proceeds were substantially applied up to 31 December 2004 in the following manner and in accordance with the proposed applications set out in the prospectus:

- As to approximately HK\$50,341,000 for construction of additional production line for fabric dyeing and its ancillary facilities;
- As to approximately HK\$5,000,000 for expansion of distribution network and promotion of the Group's products and trademark;

- As to approximately HK\$5,000,000 for product development (including the establishment of a new research and development centre and acquisition of research and development facilities); and
- As to approximately HK\$9,100,000 for general working capital of the Group.

The remaining net proceeds as at 31 December 2004 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.

## Capital Structure

For the period ended 31 December 2004, the share capital of the Company comprises ordinary shares. The Group had the CB One as at 31 December 2004 and up to the date of this report.

## Foreign Exchange Risk and Interest Rate Risk

For the period ended 31 December 2004, 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 and the CB One of the Group were denominated in Renminbi and US dollar, respectively, 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 2004, certain leasehold land and buildings, and plant and machinery of the Group with aggregate net book values of approximately HK\$55,859,000 (30 June 2004: HK\$55,859,000) and approximately HK\$20,384,000 (30 June 2004: HK\$37,635,000) were pledged to banks to secure bank facilities granted.

## Staff Policy

The Group had 438 employees in the PRC and 5 employees in Hong Kong as at 31 December 2004. 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 has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

Each of the independent non-executive directors is appointed for a term of 1 year commencing from 1 September each year.

## 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 31 March 2005 to 1 April 2005, 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, 30 March 2005.

## Directors' Interests in Securities

At 31 December 2004, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long positions

(a) Ordinary shares of HK1.0 cent each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Mr. Chen Dong	Held by controlled corporation ( <i>note</i> )	581,910,000	66.39%

Note: The shares are held by Talent Crown Investment Limited ("Talent Crown"), a company incorporated in the British Virgin Islands, 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.

(b) Share Options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	4,000,000	4,000,000
Mr. Chen Qinzhi	Beneficial owner	4,000,000	4,000,000
		<u>8,000,000</u>	<u>8,000,000</u>



Other than disclosed above, none of the Directors nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December 2004.

## Directors' Rights to Acquire Shares or Debenture

Save as disclosed under the section headed "Share options", at no time during the Period was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

## Substantial Shareholders

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in securities" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

## Long positions – ordinary shares of HK1.0 cent each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Mr. Cheah Cheng Hye ("Mr. Cheah")	Held by controlled corporation ( <i>note</i> )	47,740,000	5.45%
Emerging Markets Management, L.L.C.	Interest of controlled corporation	43,905,000	5.01%

Note: The shares are held by Value Partners Limited, a company in which Mr. Cheah has a controlling beneficial interest. Mr. Cheah is therefore deemed to have an interest in 47,740,000 shares in the Company.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2004.

## Share Options

The following table disclosed movements in the Company's share options during the Period:

Directors	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2004	Granted during the Period	Exercised during the Period	Outstanding at 31.12.2004
Mr. Chen Jinyan	23.12.2003	23.12.2003 to 22.12.2013	0.612	-	4,000,000	-	4,000,000
Mr. Chen Qinzhi	23.12.2003	23.12.2003 to 22.12.2013	0.612	-	4,000,000	-	4,000,000
Total for Directors				-	8,000,000	-	8,000,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	-	34,250,000	-	34,250,000
Granted total				-	42,250,000	-	42,250,000

No share options were granted, exercised or cancelled during the Period.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2004.

## Audit Committee

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 three members, all being independent non-executive directors of the Company. The Group's unaudited condensed consolidated financial statements for the period ended 31 December 2004 have been reviewed by the committee.

## Corporate Governance

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in the period ended 31 December 2004.

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the model code throughout the six months ended 31 December 2004.

On behalf of the Board

**Chen Jinyan**

*Chairman*

Hong Kong  
14 March 2005