



Chairman's Statement

On behalf of the Board of Directors (the "Board") of Art Textile Technology International Company Limited ("Art Textile" or the "Company") (錦藝紡織科技國際有限公司) and its subsidiaries (together, the "Group"), I am pleased to report that the Group recorded the growth in both income and earnings with turnover rising by approximately 44.0% to HK\$605,815,000 and net profit increasing by approximately 25.8% to HK\$94,795,000.


BUSINESS REVIEW

For the financial year ended 30 June 2005, Art Textile achieved remarkable results by leveraging on its established strengths, experience and foresight. The Group attained many achievements within the year.

In an attempt to benefit from the anticipated increase in market demand for the Group's products, and grasp the opportunities arising from the robust development of the textile industry of the People's Republic of China (the "PRC"), as well as the installation of its new state-of-the-art dyeing production line and auxiliary facilities in May 2004 in the plant in Changle City of Fujian Province, the PRC, the Group's production capacity has increased by 60%, from 32.4 million meters in the financial year of 2004 to 52 million meters in that of 2005. The Company has also secured considerable orders. All these positive outcomes were reflected in the current year's income and earnings. Moreover, the Group had commenced its weaving capacity expansion in the current year so as to closely monitor the length of the production cycle, the quality of products and the production cost. A new weaving factory is therefore constructed adjacent to the new dyeing production line with its trial run completed in May 2005. The aggregated weaving production capacity is expected to increase from 7.9 million meters to 12.9 million meters per annum; from which, 20% of fabrics for dyeing process can be self supplied.

Armed with the close connection with its distribution agents and customers as well as the operation of the sales outlets in major textile markets in the PRC; such as Shanghai, Shishi, Guangzhou and Shaoxing, the Group continues to enlarge its established and continuously expanding distribution network in two aspects. One is to appoint distribution agents in new locations, and the other is to strengthen the existing sales and marketing team in order to further promote the Group's products and boost customer loyalty to the brand name of "".

To be in line with the Group's efforts in expanding the overseas markets, the Group continues to promote and sell its products to overseas customers from the Middle East, North America and Europe through participation in various textile fairs and exhibitions. Although the Group's products are not fallen in the restricted categories of subsequent import tariffs enacted by the United States of America and Europe, the Group still closely observes the export disputes between the PRC and them and adjusts its development strategies accordingly.



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Apart from engaging in the production of fashionable apparel targeting at mid to high-end market, the Group has also devoted in the research and development of corduroy and functional sport wears fabrics during the year. 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). It continues to focus on the research and development of new products in order to meet the ever-changing needs and development trend of the textile and garment market. For instance, the 2008 Beijing Olympic Games would arouse the attention of the public to sports activities; which in turn would raise the demand of sport wears. The Group will endeavour to capture this opportunity to increase its share in the market by researching and developing a series of functional sport wears.

The above-mentioned major events will not only be regarded as a milestone in the business development of the Group, but also create numerous business development opportunities for the Group.

Looking forward, the business growth of the Group is expected to accelerate in the future. We will maintain growth through vertical and horizontal integration and by cooperating with business partners. We will continue to deploy resources to enhance market promotion, strengthen the product development team, increase the variety of products and expand distribution network in the PRC and overseas markets.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to present my heartfelt thanks to the customers, suppliers, bankers, business partners and shareholders of the Company for their continuous support and trust and also to each staff member of the Group for their diligent work. The achievement of the Group would not be possible without the contribution of each of the staff member and their dedication.

Chen Jinyan

Chairman

Hong Kong, 30 September 2005