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)

(Stock Code: 565)

INTERIM REPORT 2005

CORPORATE INFORMATION

Board of Directors

Mr. Chen Jinyan *(Chairman)*
Mr. Chen Dong *(Chief Executive Officer)*
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

Principal Bankers

Standard Chartered Bank
Bank of China
Fuzhou City Commercial Bank
China Merchants Bank

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

Butterfield Fund Services (Cayman) Limited
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
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited
(Stock code: 565)

Deloitte.
德勤

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 18.

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 Hong Kong Accounting Standard 34 "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.

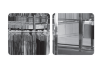
Review work performed

We conducted our review in accordance with Statement of Auditing Standards 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 group 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 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
10 March 2006



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 2005 (the "Period"), which were 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

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Notes	Six months ended 31 December **2005** **HK$'000** **(unaudited)**	 2004 HK$'000 (unaudited)
Turnover		**276,526**	300,483
Cost of sales		**(196,871)**	(211,961)
Gross profit		**79,655**	88,522
Other income		**1,634**	625
Selling and distribution costs		**(8,425)**	(9,727)
Administrative expenses		**(6,276)**	(7,127)
Other expenses		**(2,125)**	(293)
Finance costs	5	**(580)**	(1,186)
Profit before tax		**63,883**	70,814
Income tax expense	6	**(20,341)**	(18,832)
Profit for the period	7	**43,542**	51,982
Interim dividend	8	**8,766**	8,766
EARNINGS PER SHARE – (Hong Kong cents)	9		
– Basic		**4.97**	5.93
– Diluted		**4.13**	5.79

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	31.12.2005 HK$'000 (unaudited)	30.6.2005 HK$'000 (restated)
Non-current Assets			
Property, plant and equipment	10	154,993	157,335
Prepaid lease payments		14,034	13,917
		169,027	171,252
Current Assets			
Inventories		24,009	29,175
Trade and other receivables	11	54,115	62,108
Prepaid lease payments		314	314
Pledged bank deposits		44,701	45,226
Bank balances and cash		288,377	240,387
		411,516	377,210
Current Liabilities			
Trade and other payables	12	56,209	57,310
Tax liabilities		12,420	13,776
Bank borrowings, secured		19,148	23,500
		87,777	94,586
Net Current Assets		323,739	282,624
		492,766	453,876
Capital and Reserves			
Share capital	13	8,766	8,766
Dividend reserve		8,766	13,148
Other reserves		400,849	356,185
		418,381	378,099
Non-current Liability			
Convertible notes	14	74,385	75,777
		492,766	453,876

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Statutory reserve fund HK$'000	Dividend reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2004	8,765	69,329	136	–	23,602	13,148	190,165	305,145
Profit for the period, representing total recognised income and expense for the period	–	–	–	–	–	–	51,982	51,982
Transfer	–	–	–	–	5,445	–	(5,445)	–
Final dividend paid	–	–	–	–	–	(13,148)	–	(13,148)
Proposed interim dividend	–	–	–	–	–	8,766	(8,766)	–
At 31 December 2004 and 1 January 2005	8,765	69,329	136	–	29,047	8,766	227,936	343,979
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	32	–	–	–	32
Profit for the period	–	–	–	–	–	–	42,813	42,813
Total recognised income and expense for the period	–	–	–	32	–	–	42,813	42,845
Issue of shares as scrip final dividend	–	–	–	–	–	41	–	41
Script dividend issued	1	40	–	–	–	(41)	–	–
Transfer	–	–	–	–	4,966	–	(4,966)	–
Interim dividend paid	–	–	–	–	–	(8,766)	–	(8,766)
Proposed final dividend	–	–	–	–	–	13,148	(13,148)	–
At 30 June 2005	**8,766**	**69,369**	**136**	**32**	**34,013**	**13,148**	**252,635**	**378,099**
Effect of changes in accounting policies (Note 3)	–	–	–	–	–	–	1,962	1,962
At 1 July 2005 (restated)	**8,766**	**69,369**	**136**	**32**	**34,013**	**13,148**	**254,597**	**380,061**
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	7,926	–	–	–	7,926
Profit for the period	–	–	–	–	–	–	43,542	43,542
Total recognised income and expense for the period	–	–	–	7,926	–	–	43,542	51,468
Transfer	–	–	–	–	5,318	–	(5,318)	–
Final dividend paid	–	–	–	–	–	(13,148)	–	(13,148)
Proposed interim dividend	–	–	–	–	–	8,766	(8,766)	–
At 31 December 2005	**8,766**	**69,369**	**136**	**7,958**	**39,331**	**8,766**	**284,055**	**418,381**

The statutory reserve fund is a reserve required by the relevant People's Republic of China (the "PRC") laws applicable to the Group's PRC subsidiaries.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Six months ended 31 December	
	2005	2004
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**64,290**	39,696
Net cash (used in) generated from investing activities	**(4,115)**	310
Net cash (used in) generated from financing activities		
Net proceeds on issue of convertible notes	**–**	75,259
Repayments of bank borrowings	**(3,900)**	(8,491)
Dividend paid	**(13,148)**	–
Other financing cash (outflow) inflow	**(630)**	1,701
Net increase in cash and cash equivalents	**42,497**	108,475
Cash and cash equivalents at the beginning of the period	**240,387**	156,066
	282,884	264,541
Effect of foreign exchange rate changes	**5,493**	–
Cash and cash equivalents at the end of the period represented by bank balances and cash	**288,377**	264,541

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

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 and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values on initial recognition.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 July 2005, in accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 July 2005. As all outstanding share options of the Group were granted and vested before 1 July 2005, the application of HKFRS 2 has had no financial impact on the results of the Group for current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

Previously, the convertible notes were classified as liabilities and recorded at the proceeds received, net of premium payable on redemption and unamortised deferred expenditures, on the balance sheet. Convertible notes are currently regarded as compound instruments, consisting of a liability component and an equity component, or in the case of the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the accounting standard requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

On 1 July 2005, the Group has elected to designate its convertible notes with embedded derivatives as a whole as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible notes are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. In accordance with relevant transitional provisions of HKAS 39, convertible notes as at 1 July 2005 was decreased by approximately HK$1,962,000 with a corresponding increase in retained profits, being the fair value adjustment on 1 July 2005 (see Note 3 for the financial impact).

Transaction costs that are directly attributable to the issue of the convertible notes designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 July 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. Except for the convertible notes mentioned above, the adoption of HKAS 39 has had no material effect on the Group's results for current and prior accounting periods.

Owner-occupied Leasehold Interests in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Potential Impact on New HKFRSs Not Yet Effective

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(i) The effects of the changes in the accounting policies described above on the Group's results for the current and prior period are as follows:

	Six months ended 31 December 2005 HK$'000	Six months ended 31 December 2004 HK$'000
Change in fair value of convertible notes carried at fair value through profit or loss (included in other expenses)	**(570)**	–
Decrease in profit for the period	**(570)**	–

(ii) The cumulative effects of the application of the new HKFRSs as at 30 June 2005 and 1 July 2005 are summarised below:

	As at 30.6.2005 (originally stated) HK$'000	Effect of HKAS 17 HK$'000	As at 30.6.2005 (restated) HK$'000	Effect of HKAS 39 HK$'000	As at 1.7.2005 (restated) HK$'000
Property, plant and equipment	**171,566**	(14,231)	**157,335**	–	**157,335**
Prepaid lease payments					
– non-current portion	**–**	13,917	**13,917**	–	**13,917**
– current portion	**–**	314	**314**	–	**314**
Convertible notes	**(75,777)**	–	**(75,777)**	1,962	**(73,815)**
Total effects on assets and liabilities	**95,789**	–	**95,789**	1,962	**97,751**
Retained profits	**252,635**	–	**252,635**	1,962	**254,597**
Total effects on equity	**252,635**	–	**252,635**	1,962	**254,597**

4. SEGMENT INFORMATION

No analysis on business segment is provided as substantially all the Group's turnover and contribution to profit for the period 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 for the period were substantially derived from the PRC and the assets are substantially located in the PRC.

5. FINANCE COSTS

	Six months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**580**	1,040
Convertible notes	**–**	84
Amortisation of deferred expenditure on convertible notes	**–**	62
	580	1,186

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**20,341**	18,832

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for both periods.

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan") and Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng") are subsidiaries of the Group established in the PRC.

The tax rate applicable to Fuzhou Huaguan was 27% for the six months ended 31 December 2005.

Fuzhou Huasheng is exempted from the 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. No provision for EIT has been made since it has not generated any assessable profits since its incorporation.

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

7. PROFIT FOR THE PERIOD

	Six months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	**11,783**	8,420
Increase in fair value of convertible notes carried at fair value through profit or loss (Note)	**1,160**	–
Research and development expenses	**826**	176
Interest income	**(1,626)**	(593)

Note: The fair value change during the period included coupon payment of HK$590,000.

8. INTERIM DIVIDEND

The directors have proposed that an interim dividend of HK1 cent per share (2004: HK1 cent per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 4 May 2006, amounting to HK$8,766,000 (2004: HK$8,766,000).

9. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Earnings:		
Profit for the period and earnings for the purposes of basic earnings per share	**43,542**	51,982
Effect of dilutive potential ordinary shares in respect of convertible notes	**1,160**	146
Earnings for the purposes of diluted earnings per share	**44,702**	52,128

	Six months ended 31 December	
	2005	2004
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**876,558**	876,500
Effect of dilutive potential ordinary shares in respect of:		
Share options (Note 1)	**–**	4,906
Convertible notes (Note 2)	**206,540**	19,379
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,083,098**	900,785

Note 1: The computation of diluted earnings per share for the period does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares.

Note 2: Since there are more than one basis of conversion exist, the calculation of diluted earnings per share for the period assumes the most advantageous conversion rate be adopted from the standpoint of the note holders.

9. EARNINGS PER SHARE (CONTINUED)

The adjustment to basic and diluted earnings per share, arising from the changes in accounting policies is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of earnings per share for the six months ended 31 December 2005:		
Before adjustment	5.04	4.13
Adjustments arising from the changes in accounting policies		
convertible notes	(0.07)	–
As restated	4.97	4.13

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$6,266,000 (six months ended 31 December 2004: HK$22,552,000) on the construction of its new manufacturing plant in the PRC in order to increase its manufacturing capacity.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period from 45 days to 180 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	31.12.2005 **HK$'000**	30.6.2005 HK$'000
0 – 60 days	**52,082**	59,389
61 – 90 days	**520**	222
Over 90 days	**–**	691
Trade receivables	**52,602**	60,302
Other receivables	**1,513**	1,806
	54,115	62,108

12. TRADE AND OTHER PAYABLES

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

	31.12.2005	30.6.2005
	HK$'000	HK$'000
Trade payables and bill payables		
0 – 60 days	**41,440**	43,278
Other payables	**14,769**	14,032
	56,209	57,310

13. SHARE CAPITAL

	Number of shares	**Nominal value**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 July 2005 and 31 December 2005	2,000,000,000	20,000
Issued and fully paid:		
At 1 July 2005 and 31 December 2005	876,557,583	8,766

14. CONVERTIBLE NOTES

	31.12.2005	30.6.2005
	HK$'000	HK$'000
Convertible notes – unlisted	**74,385**	75,777

On 6 December 2004, the Company issued the 1.5% original tranche 1 convertible notes ("CN") of US$10,000,000 to Credit Suisse (Hong Kong) Limited (formerly known as Credit Suisse First Boston (Hong Kong) Limited) ("Credit Suisse"), an independent investor.

The CN bears interest at 1.5% per annum, which is payable semi-annually in arrears and is repayable on 6 December 2007.

Credit Suisse has an option to convert the CN into ordinary shares of the Company either at floating price or fixed price. Details of the CN 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.

14. CONVERTIBLE NOTES (CONTINUED)

Pursuant to a deed of assignment dated 3 December 2004, Credit Suisse will deposit the subscription funds for the CN to an account of DB Trustees (Hong Kong) Limited (the "Account"). The Company will charge the Account and all moneys (including interest) from time to time standing to the credit of the Account, by way of fixed charge, in favour of DB Trustees (Hong Kong) Limited (who acts as security trustee for Credit Suisse) as continuing security for the payment and discharge of all moneys owing by the Company to Credit Suisse. At 31 December 2005, an amount of US$5,000,000 was maintained in the Account.

Following the adoption of HKAS 39 on 1 July 2005, the convertible notes were redesignated as financial liabilities through profit or loss on initial recognition. There was no such redesignation on 30 June 2005 as retrospective application of HKAS 39 is not required.

15. COMMITMENTS

	31.12.2005 **HK$'000**	30.6.2005 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of construction of buildings	**7,084**	3,679
Expenditure authorised but not contracted for in respect of leasehold interests in land and plant and machinery	**12,500**	17,218

16. RELATED PARTY TRANSACTION

Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended 31 December	
	2005 **HK$'000**	2004 HK$'000
Short-term benefits	**2,049**	2,780

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

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 markets both in the PRC and overseas. The Group vertically integrates 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, down wear, trousers, windbreakers, jackets and sports wears; and household products such as sofa and curtain.

To cope with the expected growth in demand for the Group's products and the establishment of the second dyeing production line in May 2004, the Group had commenced its weaving capacity expansion in the previous period. The new plant and machinery were installed and completed test run in May 2005 and begun the production in June 2005. Consequently, the aggregated weaving production capacity increased from approximately 4.0 million meters in previous period to approximately 7.0 million meters in the Period; from which, approximately 28.0% of fabrics for dyeing process can be self supplied. To certain extent, the new weaving factory ensures 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.

To be in line with the Group's efforts in expanding markets, the Group participated in the textile fair held in Shanghai during the Period so as to promote and sell its products to local and overseas customers.

Turnover

For the six months ended 31 December 2005, the Group recorded a turnover of approximately HK$276,526,000 (2004: HK$300,483,000), representing a decrease of approximately 8.0% in comparison to the previous corresponding period. The decrease in turnover was attributable to decrease in productivity in October and November 2005 resulted from the effect of the typhoon, "Longwang", hoisted in Fujian in October 2005.

Gross Profit

The gross profit margin of the Group slightly decreased from about 29.5% in the previous period to about 28.8% in the current period. The slight decrease was due to the decrease in productivity resulted from the typhoon, "Longwang".

Profit Attributable to Shareholders

The Group's profit attributable to shareholders for the Period was approximately HK$43,542,000 (2004: HK$51,982,000), approximately 16.2% less than that in 2004. Net profit margin for the Period was approximately 15.7% (2004: 17.3%). The decrease in net profit margin compared with previous period was due to the decrease in productivity resulted from the effect of the typhoon and the change of the fair values of the convertible notes.

Expenses

Selling and distribution costs, amounted to approximately HK$8,425,000 (2004: HK$9,727,000), representing approximately 3.0% (2004: 3.2%) of turnover for the Period. Its decline was a consequence of the decrease of turnover in the Period.

Administrative expenses amounted to approximately HK$6,276,000 (2004: HK$7,127,000), representing approximately 2.3% (2004: 2.4%) of turnover for the Period. Administrative expenses decreased by approximately 11.9% when compared with that of 2004. It was mainly due to the decrease of directors' remuneration as a result of the retirement of Mr. Chen Qinzhi, the executive director, on 1 May 2005.

Other expenses amounted to approximately HK$2,125,000 (2004: HK$293,000), representing approximately 0.8% (2004: 0.1%) of turnover for the Period. The increase in amount was due to more resources contributed in the research and development of new fabrics and improvement of existing fabrics; as well as the increase in fair value of the CN carried at fair value through profit or loss and its coupon payment during the Period.

Finance costs amounted to approximately HK$580,000 (2004: HK$1,186,000). The current period balance comprises of interest payment of bank borrowings only. The previous period balance comprised of interest payment of bank borrowings and the coupon payment of the CN and the amortization of the costs incurred in connection with its issue on straight line basis over its term. The coupon payment of the CN in the Period was included in other expenses as an increase in fair value of the CN carried at fair value through profit or loss.

Future Plans and Prospects

As a result of the constant improvement of quality of life in the PRC, the demand for fashionable clothes and quality fabrics increases. In order to diversify the customer base of the Group and tap the market potential, the Group continuously strengthens its distribution network to the other textile markets in the PRC and overseas textile markets. The Group persists in its market expansion by maintaining good and close relationship with existing distribution agents and concreting its present sales and marketing team. Moreover, it will participate in the textile fairs held in Shanghai of the PRC and France in 2006 so as to promote its products to worldwide customers.

On account of the continuous change in the trend of the textile and garment markets, the Group keeps continuing to put effort in research and development of new products and improvement of existing products in order to meet the dynamic market needs. Consequently, machineries for producing functional fabrics have been purchased to increase the varieties of sportswear and household products with different nature, which in turn, boost the market expansion and raise profit margin in certain extent.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had net current assets and total assets less current liabilities of approximately HK$323,739,000 (30 June 2005: HK$282,624,000) and HK$492,766,000 (30 June 2005: HK$453,876,000), respectively. The Group maintains a strong financial position by financing its operations with the internally generated resources. As at 31 December 2005, the Group had cash and bank deposits of approximately HK$333,078,000 (30 June 2005: HK$285,613,000). The current ratio of the Group was approximately 468.8% (30 June 2005: 398.8%).

Shareholders' fund of the Group as at 31 December 2005 was approximately HK$418,381,000 (30 June 2005: HK$378,099,000). As at 31 December 2005, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, denominated in RMB19,914,000, were equivalent to HK$19,148,000 (30 June 2005: HK$23,500,000) and the CN of US$10,000,000, due on 6 December 2007 and be measured at fair value, equivalent to HK$74,385,000 (30 June 2005: HK$75,777,000), together giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 22.4% (30 June 2005: 26.3%).

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

FINANCING

As at 31 December 2005, the total banking and loan facilities of the Group amounted to about HK$35,192,000 (30 June 2005: HK$34,528,000), of which, HK$26,136,000 (30 June 2005: HK$32,839,000) 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.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net 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 2005 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 28 August 2003 (the "Prospectus"):

– as to approximately HK$56,000,000 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);

– as to approximately HK$111,000 for the establishment of an e-commerce platform for managing logistics and information exchange between the Group and its distribution agents and for business to business e-commerce; and

– as to approximately HK$9,100,000 for general working capital of the Group.

The remaining net proceeds as at 31 December 2005 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 2005, the share capital of the Company comprises ordinary shares. As at 31 December 2005 and up to the date of this interim report, the Group had the CN and outstanding share options of 38,250,000 shares.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

For the period ended 31 December 2005, the Group was not subject to any significant exposure to foreign exchange risk as the majority of the transactions of the Group were denominated in Renminbi; which was relatively stable during the Period. Hence, no financial instrument for hedging was employed.

All bank borrowings and the CN of the Group were denominated in Renminbi and US dollar, respectively, and at fixed interest 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 2005, certain leasehold interests in land, buildings and plant and machinery of the Group with aggregate amount of approximately HK$96,689,000 (30 June 2005: HK$100,143,000) were pledged to banks to secure bank facilities granted to the Group; together with the bank deposits of the Group of approximately HK$5,701,000 (30 June 2005: HK$6,226,000).

Pursuant to a deed of assignment dated 3 December 2004, Credit Suisse (Hong Kong) Limited ("Credit Suisse") will deposit the subscription funds for the convertible notes to an account of DB Trustees (Hong Kong) Limited (the "Account"). The Company will charge the Account and all moneys (including interest) from time to time standing to the credit of the Account, by way of fixed charge, in favour of DB Trustees (Hong Kong) Limited (who acts as security trustee for Credit Suisse) as continuing security for the payment and discharge of all moneys owing by the Company to Credit Suisse. At 31 December 2005, an amount of US$5,000,000 was maintained in the Account.

STAFF POLICY

The Group had 548 employees in the PRC and 4 employees in Hong Kong as at 31 December 2005. 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 of the Company 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 3 May 2006 to 4 May 2006, both days inclusive, during which period no transfers of shares shall be effective. 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 2 May 2006. Dividend warrants will be dispatched to the shareholders of the Company on or before 22 May 2006.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2005, 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 ("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 (note)	581,910,000	66.39%

Note: The shares are held by Talent Crown Investment Limited, 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 both 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

Other than as 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 2005.

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 2005, 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 shareholder 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
Credit Suisse Group	Held by controlled corporation (note)	43,868,097	5.00%

Note: These shares were beneficially held by Credit Suisse Group.

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 2005.

SHARE OPTIONS

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

Grantee	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2005	Granted during the Period	Exercised during the Period	Outstanding at 31.12.2005
Director							
Mr. Chen Jinyan	23.12.2003	23.12.2003 to 22.12.2013	0.612	4,000,000	–	–	4,000,000
Total for director				4,000,000	–	–	4,000,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	34,250,000	–	–	34,250,000
Granted Total				38,250,000	–	–	38,250,000

The closing price of the Company's shares immediately before 23 December 2003, the date of the relevant grant, was HK$0.62.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

Pursuant to the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company set up an audit committee (the "AC") in August 2003. The AC 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 AC now comprises three members, all being independent non-executive directors of the Company. The Group's unaudited condensed consolidated financial statements for the Period have been reviewed by the AC.

The Company has established the remuneration committee and the nomination committee in September 2005 with written terms of reference pursuant to the CG Code.

The remuneration committee comprises the three independent non-executive directors of the Company. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the directors and senior management of the Company.

The nomination committee also comprises the three independent non-executive directors of the Company. The nomination committee is mainly responsible for making recommendations to the Board on appointment of directors and management.

CORPORATE GOVERNANCE

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company applied the principles and met the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules and the AC assessed the risk environment and reviewed internal control procedure manual of the Company. The Board will commence to review the internal control regularly.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 of 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 compiled with the required standard set out in the model code throughout the Period.

On behalf of the Board
Chen Jinyan
CHAIRMAN

Hong Kong
10 March 2006