

NOTES TO THE INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. GENERAL AND BASIS OF PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 26 January 2005 under the Companies Law of the Cayman Islands and acts as an investment holding company.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the ultimate holding company of the Group on 7 June 2005. Details of the Group Reorganisation are more fully explained in Appendix V to the prospectus of the Company dated 21 March 2006 (the "Prospectus").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months ended 30 June 2005 have been prepared using the principles of merger accounting, included the results and cash flows of the companies comprising the Group as if the group structure after the completion of the Group Reorganisation had been in existence throughout the period or since their date of incorporation where this is a shorter period.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2006.

The consolidated 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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Group's financial statements are presented in Renminbi ("RMB") which is the same functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards issued by the HKICPA. The principal accounting policies adopted in the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except for those as described in note 3 below.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied, for the first time, a number of new Standards, Amendments and Interpretations (new "HKFRS"s) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new Standards, Amendments and Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendments or INTs will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) - INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

*Business segment*

The Group's operation is regarded as a single segment, being an enterprise engaged in the processing, printing and sales of fabrics in Mainland China (the "PRC") as well as trading of fabrics in Hong Kong.

*Geographical segment*

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical area in which the assets are located has not been presented as the Group's operations are mostly situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments were presented.

## 5. DEPRECIATION

During the period, depreciation of RMB11,075,000 (RMB8,788,000 for the six months ended 30 June 2005) was charged to the consolidated income statement in respect of the Group's property, plant and equipment.

## 6. TAXATION

	1.1.2006 to 30.6.2006 RMB'000 (unaudited)	1.1.2005 to 30.6.2005 RMB'000 (unaudited)
The charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the period	(9,077)	(1,983)
Deferred taxation	(207)	(60)
	<u>(9,284)</u>	<u>(2,043)</u>

No provision for Hong Kong Profits Tax has been made in the interim financial statements as the Group's operation in Hong Kong had no assessable profit for the period.

## 7. DIVIDEND

On 25 September 2006, the directors have determined that an interim dividend of HK1.00 cent (approximately RMB1.03 cents) per share (Nil for the six months ended 30 June 2005) to be paid to the shareholders of the Company whose names appear in the Register of Members on 13 October 2006.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2006 is based on the consolidated profit for the period attributable to the equity holders of the Company of RMB49,396,000 (RMB40,303,000 for the six months ended 30 June 2005) and on the weighted average number of ordinary shares of 731,933,702 (660,000,000 for the six months ended 30 June 2005) shares in issue during the period on the assumption that the Group Reorganisation and the capitalisation issue, as more fully described in Appendix V of the Prospectus, have been effective on 1 January 2005.

No diluted earnings per share is presented as there were no potential dilutive shares during the period.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred RMB152,589,000 (RMB12,795,000 for the six months ended 30 June 2005) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities.

## 10. TRADE AND OTHER RECEIVABLES

	30.6.2006 RMB'000 (unaudited)	31.12.2005 RMB'000 (audited)
Trade receivables	67,515	74,977
Deposits paid to suppliers	48,577	61,201
Other receivables	5,526	3,344
	<u>121,618</u>	<u>139,522</u>

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 60 to 90 days of issuance except for certain well established customers for which the credit terms are up to 180 days. The directors consider the carrying amount of trade and other receivable approximates to its fair value. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2006 RMB'000 (unaudited)	31.12.2005 RMB'000 (audited)
Age		
0 to 90 days	43,367	70,398
91 to 180 days	17,234	4,579
181 to 270 days	6,250	–
271 to 365 days	664	–
	<u>67,515</u>	<u>74,977</u>

#### 11. TRADE AND OTHER PAYABLES

	30.6.2006 RMB'000 (unaudited)	31.12.2005 RMB'000 (audited)
Trade payables	26,084	53,433
Bills payables	<u>16,500</u>	<u>12,600</u>
Customers' deposits	42,584	66,033
Payables for acquisition of property, plant and equipment	8,841	5,042
Other payables	5,982	1,945
	<u>14,157</u>	<u>10,727</u>
	<u>71,564</u>	<u>83,747</u>

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

	30.6.2006 RMB'000 (unaudited)	31.12.2005 RMB'000 (audited)
Age		
0 to 90 days	30,581	53,053
91 to 180 days	7,203	10,795
181 to 270 days	3,023	2,185
271 to 365 days	656	–
Over 365 days	1,121	–
	<u>42,584</u>	<u>66,033</u>

## 12. SHARE CAPITAL

	Authorised HK\$'000	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.10 each		
– on incorporation	380	–
– increase in authorised share capital	99,620	–
– issued pursuant to the Group Reorganisation	–	3
	<u>100,000</u>	<u>3</u>
– at 31 December 2005	100,000	3
– issue of shares on capitalisation issue	–	65,997
– issue of shares by placing and public offer	–	14,000
	<u>100,000</u>	<u>80,000</u>
		RMB'000
Shown in the balance sheet as		
– at 30 June 2006		<u>82,760</u>
– at 31 December 2005		<u>3</u>

- (a) According to the written shareholders' resolution of the Company dated 15 March 2006, conditional on the share premium account of the Company being credited as a result of the placing and public offer of the shares of the Company, the directors were authorised to capitalise HK\$65,997,000 (approximately RMB68,274,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 659,970,000 shares for allotment and issued to the holder whose name appeared on the register of members of the Company at the close of business on 15 March 2006 in proportion to their then shareholding in the Company.
- (b) On 30 March 2006, by means of placing and public offer, the Company issued a total of 140,000,000 new ordinary shares of HK\$0.10 each at HK\$1.16 per share and the Company's shares were listed on the Main Board of the Stock Exchange.

### 13. CAPITAL COMMITMENTS

	30.6.2006	31.12.2005
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>19,084</u>	<u>25,807</u>