

## 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 steady growth in turnover of HK\$615,767,000 (2005: HK\$605,815,000) and the slightly drop in profit for the year of HK\$92,346,000 (2005: HK\$94,795,000).

### BUSINESS REVIEW

For the financial year ended 30 June 2006, Art Textile achieved sound results by leveraging on its established strengths, experience and foresight. The Group attained a number of achievements within the year which create numerous business development opportunities for the Group.

The Group gradually modifies its composition of products by increasing its productivity in down wear, sports wear and household products and reducing the portion of outer garment to total sales, since the selling prices of these three products are higher than that of outer garment as a result of popular production technology of the latter. In order to meet the modification, the Group sustained to install new state-of-the-art dyeing auxiliary facilities and expand its weaving production line throughout the year in the plant in Changle City of Fujian Province, the People's Republic of China (the "PRC"). Simultaneously, the average selling price of the Group was increased by 23.7% in this year than in the financial year of 2005. Also the Group has secured considerable orders of those three products. Moreover, by taking advantages of closely monitor the length of the production cycle, the quality of products and the production cost due to the weaving factory operated in the plant in Changle City, the weaving production capacity increased to 13,700,000 meters per annum; from which, 26.6% (2005: 20.0%) of fabrics for dyeing process can be self supplied.

In view of the change in the production strategy as set above, the Group is ready to anticipate increase in market demand for its products and grasp the opportunities arising from the robust development of the textile industry of the PRC. Consequently, all these positive outcomes were reflected in the current year's income and earnings.

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 by strengthening the existing sales and marketing team in order to further promote the Group's products and boost customer loyalty to the brand name of "HG · 錦藝". 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 and worldwide textile fairs and exhibitions.

Apart from engaging in the production of fashionable apparel targeting at mid to high-end market, the Group continues to devote in the research and development of corduroy, functional sports wear fabrics and new products in order to meet the ever-changing needs and development trend of the textile and garment markets. 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 sports wear. The Group will endeavour to capture this opportunity to increase its market share by constantly researching and developing a series of functional sports wear.



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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 set up new and modern machineries, strengthen the product development team, increase the variety of products, enhance market promotion 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, 29 September 2006