



ADDCHANCE HOLDINGS LIMITED

(互益集團有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3344)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

INTERIM RESULTS

On behalf of the board of directors (the “Board”) of Addchance Holdings Limited (the “Company”), I am pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006, together with unaudited comparative figures for the corresponding period in 2005. These interim financial statements have not been audited, but have been reviewed by the auditors and the audit committee of the Company (the “Audit Committee”).

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

	NOTES	For the six months ended 30th June	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	3	341,064	357,634
Cost of sales		<u>(271,112)</u>	<u>(292,991)</u>
Gross profit		69,952	64,643
Other income		6,080	5,070
Distribution costs		(22,762)	(16,213)
Administrative expenses		(41,680)	(35,353)
Finance costs	5	<u>(8,520)</u>	<u>(10,856)</u>
Profit before taxation		3,070	7,291
Taxation	6	<u>(2,841)</u>	<u>(1,036)</u>
Profit for the period	7	<u>229</u>	<u>6,255</u>
Attributable to:			
Equity holders of the parent		229	6,251
Minority interests		<u>—</u>	<u>4</u>
		<u>229</u>	<u>6,255</u>
Earning per share, in HK cents			
Basic	9	0.06	2.08

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH JUNE, 2006**

	<i>NOTES</i>	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
NON-CURRENT ASSETS			
Investment properties		8,492	8,599
Property, plant and equipment		268,856	274,112
Prepaid lease payments		40,494	38,100
Available-for-sale investments		2,325	2,325
Club debentures		1,070	1,070
Deposit paid for acquisition of land use rights and property, plant and equipment		6,777	962
Deferred tax assets		487	487
		<u>328,501</u>	<u>325,655</u>
CURRENT ASSETS			
Prepaid lease payments		1,001	955
Inventories		236,701	185,383
Trade receivables, bills receivables and other receivables, deposits and prepayments	10	258,500	194,166
Amounts due from related companies		585	2,584
Taxation recoverable		—	3,939
Pledged bank deposits		6,715	21,266
Fixed bank deposit		24,063	—
Bank balances and cash		60,397	106,710
		<u>587,962</u>	<u>515,003</u>
CURRENT LIABILITIES			
Trade and other payables	11	103,963	77,692
Bills payable		2,115	26,751
Amount due to a related company		631	—
Amount due to a director		—	180
Bank borrowings - due within one year		308,688	243,987
Obligations under finance leases - due within one year		4,016	4,546
Taxation payable		4,044	8,983
		<u>423,457</u>	<u>362,139</u>
NET CURRENT ASSETS		<u>164,505</u>	<u>152,864</u>
		<u>493,006</u>	<u>478,519</u>

	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
CAPITAL AND RESERVES		
Share capital	4,000	4,000
Reserves	<u>438,324</u>	<u>456,895</u>
Equity attributable to equity holders of the parent	442,324	460,895
Minority interests	<u>154</u>	<u>154</u>
Total equity	<u>442,478</u>	<u>461,049</u>
NON-CURRENT LIABILITIES		
Bank borrowings - due after one year	43,178	10,080
Obligations under finance leases - due after one year	2,464	4,505
Deferred tax liabilities	<u>4,886</u>	<u>2,885</u>
	<u>50,528</u>	<u>17,470</u>
	<u>493,006</u>	<u>478,519</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006**

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9th June, 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 5th October, 2005.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the group in preparation for the listing of the Company's shares on the Stock Exchange, on 29th August, 2005, the Company issued shares in exchange for the entire issued share capital of Interlink Atlantic Limited and thereby became the holding company of the companies now comprising the group. Further details of the Group Reorganisation were set out in the prospectus issued by the Company dated 23rd September, 2005.

The group comprising the Company and its subsidiaries (the "Group") resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements of the Group for the six months ended 30th June, 2005 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of pooling of interests.

The condensed 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 International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by International Accounting Standard Board ("IASB").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December, 2005.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new IFRSs”) issued by the IASB, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied all the new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently operating into the following five operating divisions. These divisions are the basis on which the Group reports its primary segment information. An analysis of the Group’s turnover and contribution to operating results by business segments is as follows:

Six months ended 30th June, 2006

	Production and sale of cotton yarn <i>HK\$'000</i>	Production and sale of knitted sweaters <i>HK\$'000</i>	Production and sale of dyed yarns <i>HK\$'000</i>	Provision of dyeing and knitting services <i>HK\$'000</i>	Trading of cotton and yarns <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER							
External	31,735	103,000	174,453	17,628	14,248	—	341,064
Inter-segment sales	<u>31,975</u>	<u>69,484</u>	<u>157,665</u>	<u>4,290</u>	<u>77,249</u>	<u>(340,663)</u>	<u>—</u>
	<u>63,710</u>	<u>172,484</u>	<u>332,118</u>	<u>21,918</u>	<u>91,497</u>	<u>(340,663)</u>	<u>341,064</u>
SEGMENT RESULTS	<u>4,928</u>	<u>1,945</u>	<u>8,687</u>	<u>1,775</u>	<u>(3,719)</u>	<u>—</u>	13,616
Unallocated corporate income							1,266
Unallocated corporate expenses							(3,292)
Finance costs							<u>(8,520)</u>
Profit before taxation							3,070
Taxation							<u>(2,841)</u>
PROFIT FOR THE PERIOD							<u>229</u>

Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

Six months ended 30th June, 2005

	Production and sale of cotton yarn <i>HK\$'000</i>	Production and sale of knitted sweaters <i>HK\$'000</i>	Production and sale of dyed yarns <i>HK\$'000</i>	Provision of dyeing and knitting services <i>HK\$'000</i>	Trading of cotton and yarns <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER							
External	16,233	64,489	209,507	17,902	49,503	—	357,634
Inter-segment sales	<u>35,542</u>	<u>44,276</u>	<u>166,144</u>	<u>1,888</u>	<u>37,341</u>	<u>(285,191)</u>	<u>—</u>
	<u>51,775</u>	<u>108,765</u>	<u>375,651</u>	<u>19,790</u>	<u>86,844</u>	<u>(285,191)</u>	<u>357,634</u>
SEGMENT RESULTS	<u>497</u>	<u>1,989</u>	<u>15,287</u>	<u>2,278</u>	<u>347</u>	<u>—</u>	20,398
Unallocated corporate income							311
Unallocated corporate expenses							(2,562)
Finance costs							<u>(10,856)</u>
Profit before taxation							7,291
Taxation							<u>(1,036)</u>
PROFIT FOR THE PERIOD							<u>6,255</u>

Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

4. RESULTS FOR THE PERIOD

The Group is principally engaged in the production and sales of dyed yarns and knitted sweaters. The result for the period of the Group was affected by the seasonal factors in which the sales demand of dyed yarns and knitted sweaters are concentrated in the second half of the year and therefore, the Group's profit for the period has been decreased.

5. FINANCE COSTS

	For the six months ended 30th June, 2006		2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:			
Bank borrowings wholly repayable within five years	8,176		8,211
Bank borrowings wholly repayable over five years	98		56
Obligations under finance leases	246		264
Imputed interest on amount due to a shareholder	—		<u>2,325</u>
	<u>8,520</u>		<u>10,856</u>

6. TAXATION

	For the six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	645	3,198
PRC income tax	196	—
Deferred taxation	<u>2,000</u>	<u>(2,162)</u>
	<u>2,841</u>	<u>1,036</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from the PRC enterprise income tax for the following three years.

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	For the six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Depreciation of investment properties	107	107
Depreciation of property, plant and equipment	15,514	14,403
Amortisation of prepaid lease payments	449	460
Interest income	<u>(1,266)</u>	<u>(311)</u>

8. DIVIDENDS

On 12th June, 2006, a dividend of HK4.7 cents per share amounting to HK\$18,800,000 was paid to shareholders as the final dividend for 2005.

The directors have resolved not to pay an interim dividend for the six months ended 30th June, 2006.

9. EARNING PER SHARE

The calculation of the basic earning per share for the period is based on the profit for the period attributable to equity holders of the parent of HK\$229,000 (2005: profit of HK\$6,251,000) and on the number of 400,000,000 shares in issue (2005: 300,000,000 shares that would have been in issue throughout the period on the assumption that the Group Reorganisation had been effective on 1st January, 2005).

10. TRADE RECEIVABLES, BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group generally allows an average credit periods of 30 days to 120 days to its trade customers.

At 30th June, 2006, included in trade receivables, bills receivable and other receivables, deposits and prepayments are trade receivables of HK\$238,258,000 and bills receivables of HK\$4,808,000 (31.12.2005: HK\$162,551,000 and HK\$9,840,000 respectively) and their aged analysis is as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Aged:		
0 to 30 days	113,299	85,390
31 to 60 days	50,683	37,656
61 to 90 days	24,805	19,799
91 to 120 days	18,975	14,324
Over 120 days	<u>35,304</u>	<u>15,222</u>
	<u>243,066</u>	<u>172,391</u>

11. TRADE AND OTHER PAYABLES

At 30th June, 2006, included in trade and other payables are trade payables of HK\$43,081,000 (31.12.2005: HK\$30,554,000) and their aged analysis is as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Aged:		
0 to 60 days	36,014	21,762
61 to 90 days	2,231	2,686
Over 90 days	<u>4,836</u>	<u>6,106</u>
	<u>43,081</u>	<u>30,554</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review & Outlook

Following the listing of the shares of the Company on the Main Board of the Stock Exchange, we are pleased to present the first interim results of the Group. Possessing the advanced dyeing facilities, production know-how associated with the strategically located production bases, persistent vertical integration and good market reputation, the Group proactively developed itself as a one-stop service provider for garment customers with selection of production for yarn products at different stages: whether from a simply supply of cotton yarn, or a production of a well-knitted sweater; from the spinning of cotton into yarn, to the provision of yarn dyeing service.

The Group is principally engaged in the production and sale of dyed yarn, knitted sweaters and cotton yarn, the provision of dyeing services and knitting services and trading of cotton and yarns. Its major products include over 200 different types of dyed yarns made of cotton, cashmere, ramie, rayon, acrylic, polyester, silk, wool, nylon, linen and mixtures of above and knitted sweaters including cardigans and pullovers.

Following the signing of the Sino-US and Sino-EU trade agreements on textile products on 8th November, 2005 and 10th July, 2005 respectively, the resolution provided a relatively steady environment for the export of Chinese textile products. Stepping into 2006, market demand for knitted sweaters continued to grow, contributing to a substantial increase in the sales of knitted sweaters to 3 million pieces during the period under review, compared with 1.4 million pieces last corresponding period, representing a 60% growth in turnover of sales of knitted sweaters, from approximately HK\$64.5 million to HK\$103.0 million.

Looking forward in the second half of 2006, the Group continues to expand the sector of knitted sweaters by increasing its capacity of linking and finishing process to cater for the increasing demand from customers and reduce the reliance on subcontractors in the long run. On 7th July 2006, the Group agreed to acquire the entire registered share capital of River Rich Textile Limited (“River Rich”), a Cambodia-based manufacturing company, with the unaudited net assets value of approximately HK\$13.9 million, such acquisition was completed on 30th August, 2006. This strategic acquisition of a Cambodia manufacturing company allows the Group to reduce the risks and uncertainties affecting the Group related to the quota restrictions as the export of textile products of the Group with origin in Cambodia will not be subject to the quota restrictions. Our sweater business will show encouraging improvement in contribution to the Group following our acquisition of River Rich. By widening the product mix of our sweater business, the Group continues to explore the new products, e.g. socks and hosiery products.

As stated in the prospectus of the Company dated 23rd September, 2005 (the “Prospectus”), the directors of the Company (the “Directors”) intended to apply approximately HK\$50 million of the net proceeds of the share offer for partial payment of the outstanding registered capital of Zhangjiagang Addchance Spinnery Co., Ltd. for the expansion of dyeing variety and decided to set up fabric dyeing facilities in Zhangjiagang Dyeing Mill. As stated in the Prospectus, the Directors expected that the installation of the fabric dyeing facilities and water processing facilities to be carried out in the first quarter of 2006 and the commencement of the commercialized operations of the fabric dyeing workshop in the third quarter of 2006.

As at the date of this announcement, the Company is still in the process of applying for the required approvals regarding the water processing facilities from the relevant PRC regulatory authorities. In view of the delay in the installation of the water processing facilities, delay in the commencement of the commercialized operations of the fabric dyeing workshop is anticipated. As it is uncertain when the required approvals can be obtained, the commencement date of the commercialized operations of the fabric dyeing workshop cannot be presently ascertained. Further announcement will be made when there is new development regarding the fabric dyeing facilities in Zhangjiagang Dyeing Mill.

Financial Review

The first half-year has long been the slack season of our Group. To cope with the demand for knitted sweaters in the X'mas and New Year, customers for dyed yarn and knitted sweaters usually place orders starting from the 2nd quarter annually and the production lead-time become shorter during the period under review than that of last corresponding period. Normally, the Group's turnover for the first half-year period represents around 30-40% of the annual turnover. For the period under review, total turnover slightly decreased by approximately 5% as compared with last corresponding period, such decrease mainly attributable to the Group's downsized trading business of cotton and yarns.

Turnover of the Group is primarily generated from production and sale of dyed yarns and knitted sweaters. With the continuous expansion in the production and sale of knitted sweaters, Addchance recorded another double-digit growth in turnover of sales of knitted sweaters. For the period under review, turnover of sales of knitted sweaters increased by approximately 60% over the last corresponding period, from approximately HK\$64.5 million to about HK\$103 million. The market demand for knitted sweaters continued to expand, contributing to the twofold increases in the sales of knitted sweaters to 3 million pieces, compared with 1.4 million pieces last corresponding period. Revenue growth was mainly driven by the increase in sales volume associated with the sustainable economies of scale and improved operational efficiency.

Our sweaters products were still mainly exported to EU during the period under review. Sales made to international retail chainstores accounted for approximately HK\$88.8 million, which represented approximately 86.2% of the Group's sales of knitted sweaters for the period under review.

Dyed yarn is still being the core product of Addchance. During the period under review, turnover from the production and sale of dyed yarns was approximately HK\$174.5 million, a decrease of 17% as compared with last corresponding period, and accounted for 51.1% of the Group's total turnover. During the period under review, the increased demand for lower-priced products and the intensified competition in the international textile industry reduced the average selling price of our dyed products.

Revenue generated from the provision of dyeing services also decreased slightly from approximately HK\$17.9 million last corresponding period to about HK\$17.6 million during the period under review, a slight 2% decrease as compared with last corresponding period. During the period under review, most of the Group's dyed yarn was sold to the PRC and Hong Kong manufacturers with production sites based in Guangdong, Jiangsu and Zhejiang, accounting for approximately 89.0% of the Group's sales of dyed yarn while the remaining represented exports to overseas countries including Thailand, Taiwan, Cambodia and Indonesia.

Turnover of the yarn-spinning business surged to HK\$31.7 million for the period under review from HK\$16.2 million last corresponding period, representing an increase of 95%. The Group continuously expanded in vertical integration to enhance its competitiveness and the Susong Spinning Mill is the yarn production arm of the Group, the production of cotton yarns can cater the demand for the production and sale of dyed yarns. During the period under review, about 50% of yarns produced by the Group were used in its dyeing function.

The turnover of the Group for the period under review slightly deteriorated as a result of the decrease in sale of dyed yarns and the contraction of the low-profit-margin segment of trading of cotton and yarns. With the downsized measures implemented in the segment of trading of cotton and yarns, the revenue generated from trading segment decreased from approximately HK\$49.5 million last corresponding period to HK\$14.2 million in the period under review, resulting a 71% drop. Excluding the income generated from trading of cotton and yarns, the turnover of the Group slightly increased by approximately 6%.

The Group recorded a gross profit of approximately HK\$70.0 million for the period under review, representing an increase of approximately 8.2% as compared to approximately HK\$64.6 million last corresponding period. With the increase in the production and sale of knitted sweaters with higher gross profit margin, the Group's gross profit margin increased from 18.1% last corresponding period to 20.5% for the period under review. The strategic expansion and vertical integration enhanced the competitive advantage of Addchance and facilitate the Group with stable raw materials supply, optimized factory utilization rate and lower production cost, the gross profit margin therefore improved continuously with the effectiveness of the Group's sales and production planning and strengthened cost control.

Sweater business continued to be the most profit-generating segment of the Group. With the continuous expansion of customer base, the twofold increase in sales volume and the increase in economies of scale, the Group enjoyed a lower production cost and therefore drove the gross profit margin of sweater business by almost 5.9%, from 21.4% for the previous period to 27.3% for the period under review.

Despite the surge in gross profit, net profit decreased in the period under review mainly due to the increase of the distribution costs associated with the twofold increase in sales volume of sweaters. In connection with the listing compliance matters and the expansion of the business operation, the related staff costs, directors' remuneration and the legal and professional fee increased further, thus resulting in a net profit of approximately HK\$0.2 million during the period under review.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June, 2006, the Group's cash and cash equivalents amounted to HK\$23.0 million. During the period under review, the Group met its funding requirements in its usual course of operation by cash flows from operations, as well as long-term and short-term borrowings.

As a result of business expansion in the period under review, the Group's inventories and trade and bills receivables increased substantially by HK\$51.4 million and HK\$65.1 million respectively. To cater for the expansion of the Group's production capacity and its business expansion, the Group's bank borrowings as at 30th June, 2006 have also increased by HK\$97.8 million to HK\$351.9 million, resulting the net cash inflow in financing activities increased from HK\$24.1 million to HK\$59.7 million.

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

The Company has not redeemed any of its listed shares during the six months ended 30th June, 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the six months ended 30th June, 2006.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules during the six months ended 30th June, 2006 save that Code provision A.2.1 requires that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Sung Chung Kwun is the Chairman of the Board and there is no chief executive officer appointed by the Company and the day-to-day management of the Group is led by Dr. Sung Chung Kwun. There is no time schedule to change this structure as the Directors consider that this structure provides the Group with strong and consistent leadership in the Company's decision making and operational efficiency.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30th June, 2006.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group, its internal control, financial reporting matters and interim results for the six months ended 30th June, 2006.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the website of the Stock Exchange. An interim report of the Group for the six months ended 30 June 2006 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the Stock Exchange's website in due course.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board comprises Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Ip Siu Lam, Ms. Mok Pui Mei and Ms. Sung Lam Ching as executive Directors, Mr. Lau Gary Q. as non-executive Director and Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling as independent non-executive Directors.

On behalf of the Board, I would like to express my heartfelt gratitude to our management team, staff and shareholders for their dedication and contribution to the Group.

By Order of the Board
Sung Chung Kwun
Chairman

Hong Kong, 20th September, 2006