



Addchance Holdings Limited

互益集團有限公司

(a company incorporated in the Cayman Islands with limited liability)
(Stock Code:3344)



Interim Report 2006

- Major cotton agricultural bases
- Major dyeing bases





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Corporate Information

Executive Directors

Dr. SUNG Chung Kwun (Chairman)
Mr. WONG Chiu Hong
Ms. MOK Pui Mei
Mr. IP Siu Lam
Ms. SUNG Lam Ching

Non-Executive Director

Mr. LAU Gary Q.

Independent Non-Executive Directors

Mr. CHAN, Tsz Fu, Jacky
Mr. NG Man Kin
Professor CAI Xiu Ling

Company Secretary and Qualified Accountant

Ms. FUNG Ka Lai

Members of Audit Committee, Remuneration Committee and Nomination Committee

Mr. CHAN, Tsz Fu, Jacky
Mr. NG Man Kin
Professor CAI Xiu Ling

Authorized representatives

Mr. WONG Chiu Hong
Ms. MOK Pui Mei

Head office and principal place of business in Hong Kong

Sung's Tower
15-19 Lam Tin Street
Kwai Chung
New Territories
Hong Kong

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal bankers

The Hongkong and Shanghai
Banking Corporation
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong)
Limited
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of
China (Asia) Limited

Principal share registrar and transfer office

Butterfield Fund Service (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong branch share registrar and transfer office

Computershare Hong Kong
Investor Services Limited
Shops 1712-16, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Legal advisor as to Hong Kong Law

F. Zimmern & Co.

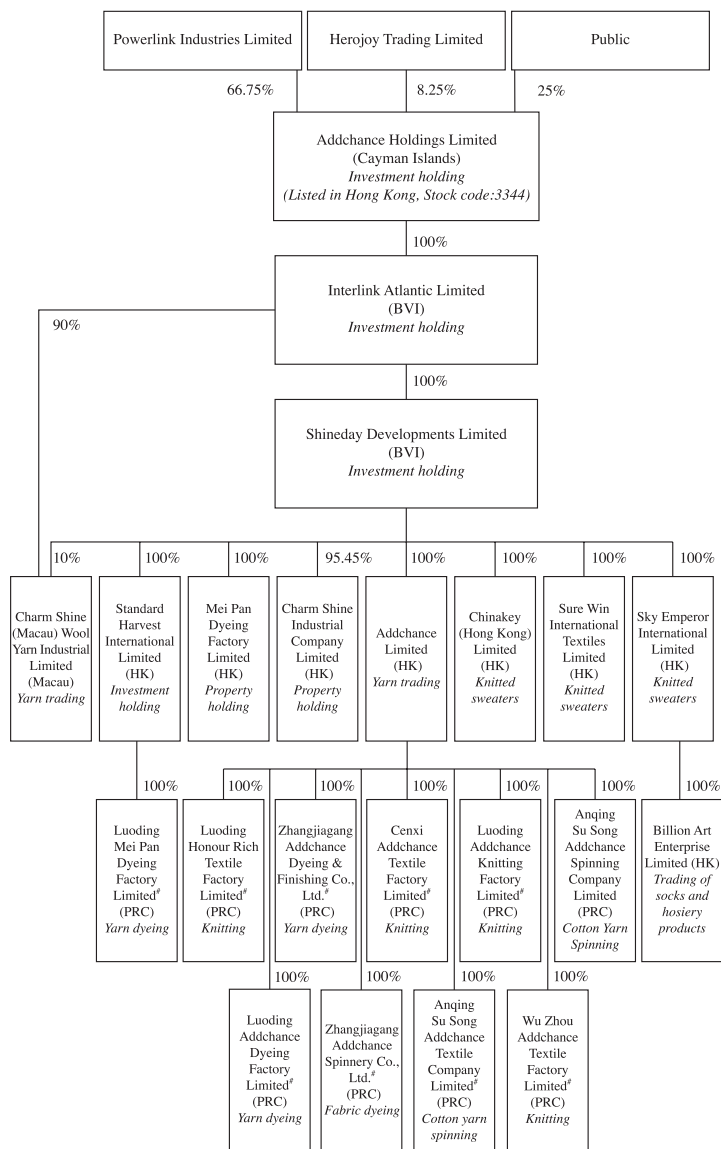
Website

www.addchance.com.hk

Stock code

3344

Corporate Structure as at 30th June, 2006



^f for identification purpose only

Financial Highlights

Key Financial Results

	Period ended 30 June		
	2006 HK\$'000	2005 HK\$'000	Changes +/- %
Turnover	341,064	357,634	-5%
Gross profit	69,952	64,643	8%
Profit for the period	229	6,255	-96%
Profit Attributable to:			
Equity holders of the Company	229	6,251	-96%
Minority interests	—	4	-100%
Earnings per share (in HK cents)	0.06	2.08	

Financial Ratios

	Period ended 30 June	
	2006	2005
Profitability ratios:		
Gross margin (%)	20.5	18.1
Net margin (%)	0.1	1.7
	Period ended 30 June	Year ended 31 December
Liquidity ratios:		
Current ratio (times)	1.4	1.4
Stock turnover (days) (Note 1)	157	101
Debtors turnover (days) (Note 2)	126	70
Creditors turnover (days) (Note 3)	30	31
Capital adequacy ratio		
Gearing ratio (%) (Note 4)	38.4	30.2



Financial Highlights

Notes:

1. The number of stock turnover days is equal to inventory at the end of period divided by the cost of sales for the period and then multiplied by 181 days.
2. The number of debtors' turnover days is equal to trade and bills receivables at the end of period divided by the sales of the period and then multiplied by 181 days.
3. The number of creditors' turnover days is equal to trade and bills payable at the end of period divided by the cost of sales for the period and then multiplied by 181 days.
4. The gearing ratio is equal to total bank borrowings at the end of the period divided by total assets at the end of the period.

Independent Interim Review Report

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF ADDCHANCE HOLDINGS LIMITED

互益集團有限公司

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by Addchance Holdings Limited (the “Company”) to review the interim financial report set out on pages 8 to 25.

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 International Accounting Standard 34 “Interim financial reporting” issued by the International Accounting Standard Board 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.

Independent Interim Review Report

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" ("SAS 700") 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 30th June, 2006.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June, 2006 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20th September, 2006

Condensed Consolidated Income Statement

For the six months ended 30th June, 2006

Interim Report 2006

		For the six months ended 30th June,	
	NOTES	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	3	341,064	357,634
Cost of sales		(271,112)	(292,991)
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	(8,520)	(10,856)
Profit before taxation		3,070	7,291
Taxation	6	(2,841)	(1,036)
Profit for the period	7	229	6,255
Attributable to:			
Equity holders of the parent		229	6,251
Minority interests		—	4
		229	6,255
Earning per share, in HK cents			
Basic	9	0.06	2.08

Condensed Consolidated Balance Sheet

At 30th June, 2006

	NOTES	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
NON-CURRENT ASSETS			
Investment properties		8,492	8,599
Property, plant and equipment	10	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	11	236,701	185,383
Trade receivables, bills receivables and other receivables, deposits and prepayments	12	258,500	194,166
Amounts due from related companies	18	585	2,584
Taxation recoverable		—	3,939
Pledged bank deposits	13	6,715	21,266
Fixed bank deposit	13	24,063	—
Bank balances and cash		60,397	106,710
		<u>587,962</u>	<u>515,003</u>
CURRENT LIABILITIES			
Trade and other payables	14	103,963	77,692
Bills payable		2,115	26,751
Amount due to a related company	18	631	—
Amount due to a director	18	—	180
Bank borrowings – due within one year	15	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>

Condensed Consolidated Balance Sheet

At 30th June, 2006

Interim Report 2006

	NOTE	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
CAPITAL AND RESERVES			
Share capital		4,000	4,000
Reserves		438,324	456,895
Equity attributable to equity holders of the parent			
		442,324	460,895
Minority interests		154	154
Total equity		442,478	461,049
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	15	43,178	10,080
Obligations under finance leases			
– due after one year		2,464	4,505
Deferred tax liabilities		4,886	2,885
		50,528	17,470
		493,006	478,519

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

	Attributable to equity holders of the parent									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (Note a)	Special reserves HK\$'000 (Note b)	Statutory reserves HK\$'000 (Note c)	Translation reserve HK\$'000	Retained profits HK\$'000	Subtotal HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2005	78	—	—	24,673	12,292	(7,963)	63,723	92,803	150	92,953
Exchange differences arising on translation of operations outside Hong Kong directly recognised in equity	—	—	—	—	—	2,082	—	2,082	—	2,082
Profit for the period	—	—	—	—	—	—	6,251	6,251	4	6,255
Total recognised income and expenses for the period	—	—	—	—	—	2,082	6,251	8,333	4	8,337
At 30th June, 2005	78	—	—	24,673	12,292	(5,881)	69,974	101,136	154	101,290
Exchange differences arising on translation of operations outside Hong Kong directly recognised in equity	—	—	—	—	—	5,226	—	5,226	—	5,226
Profit for the period	—	—	—	—	—	—	69,162	69,162	—	69,162
Total recognised income and expenses for the period	—	—	—	—	—	5,226	69,162	74,388	—	74,388
Transfer to statutory reserves	—	—	—	—	55	—	(55)	—	—	—
Arising from group reorganisation	(78)	—	78	—	—	—	—	—	—	—
Capitalisation of amount due to a shareholder	200	—	191,965	—	—	—	—	192,165	—	192,165
Issue of shares by capitalisation of share premium account	2,800	(2,800)	—	—	—	—	—	—	—	—
Issue of shares for placing and public offer	1,000	100,000	—	—	—	—	—	101,000	—	101,000
Share issue expenses	—	(7,794)	—	—	—	—	—	(7,794)	—	(7,794)
At 31st December, 2005	4,000	89,406	192,043	24,673	12,347	(655)	139,081	460,895	154	461,049
Profit for the period and the total recognised income and expenses for the period	—	—	—	—	—	—	229	229	—	229
Final dividend 2005	—	—	(18,800)	—	—	—	—	(18,800)	—	(18,800)
At 30th June, 2006	<u>4,000</u>	<u>89,406</u>	<u>173,243</u>	<u>24,673</u>	<u>12,347</u>	<u>(655)</u>	<u>139,310</u>	<u>442,324</u>	<u>154</u>	<u>442,478</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

Notes:

- (a) The contributed surplus represents the excess of the combined net assets of the subsidiaries acquired and the acquisition of amount due to a shareholder from Interlink Atlantic Limited (being the holding company of companies comprising the group before group reorganisation set out in note 1), over the nominal value of the share capital of the Company issued in exchange thereof pursuant to the group reorganisation set out in note 1.
- (b) The special reserve represents (i) the difference between the nominal value of share capital issued by Interlink Atlantic Limited and the nominal value of the share capital of subsidiaries acquired by Interlink Atlantic Limited on 23rd September, 2004; and (ii) the contribution from minority shareholders of net assets value shared by them to Dr. Sung Chung Kwun, the shareholder of Interlink Atlantic Limited.
- (c) The statutory reserve represents reserves required to be appropriated from profit after taxation of the Company's subsidiaries in the People's Republic of China ("PRC") under PRC laws and regulations.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2006

	For the six months ended 30th June,	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Net cash used in operating activities	<u>(95,593)</u>	<u>(20,978)</u>
Net cash used in investing activities:		
Purchase of property, plant and equipment	(10,258)	(4,230)
Increase in pledged bank deposit/fixed bank deposits	(9,512)	(249)
Other investing cash flows	<u>(7,378)</u>	<u>(5,618)</u>
	<u>(27,148)</u>	<u>(10,097)</u>
Net cash from financing activities:		
New bank loans raised	297,738	299,906
Repayment of bank borrowings	(216,674)	(191,132)
Dividend paid	(18,800)	—
Decrease in amount due to a shareholder	—	(74,293)
Repayment of obligations under finance leases	<u>(2,571)</u>	<u>(10,377)</u>
	<u>59,693</u>	<u>24,104</u>
Net decrease in cash and cash equivalents	(63,048)	(6,971)
Effect of foreign exchange rate changes	—	2,082
Cash and cash equivalents at 1st January	<u>86,086</u>	<u>15,527</u>
Cash and cash equivalents at 30th June	<u><u>23,038</u></u>	<u><u>10,638</u></u>
Cash and cash equivalents at end of the period		
Bank balances and cash	60,397	30,558
Bank overdrafts	<u>(37,359)</u>	<u>(19,920)</u>
	<u><u>23,038</u></u>	<u><u>10,638</u></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 and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by International Accounting Standard Board ("IASB").

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

3. SEGMENT INFORMATION – continued

Six months ended 30th June, 2005

	Production and sale of cotton yarn HK\$'000	Production and sale of knitted sweaters HK\$'000	Production and sale of dyed yarns HK\$'000	Provision of dyeing and knitting services HK\$'000	Trading of cotton and yarns HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER							
External	16,233	64,489	209,507	17,902	49,503	—	357,634
Inter-segment sales	35,542	44,276	166,144	1,888	37,341	(285,191)	—
	<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>	<u>20,398</u>
Unallocated corporate income							311
Unallocated corporate expense							(2,562)
Finance costs							(10,856)
Profit before taxation							7,291
Taxation							(1,036)
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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

5. FINANCE COSTS

	For the six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
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	—	2,325
	<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	2,000	(2,162)
	<u>2,841</u>	<u>1,036</u>

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

6. TAXATION – continued

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	(1,266)	(311)
	<u> </u>	<u> </u>

Interim Report 2006

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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

10. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2006, the Group incurred expenditure of HK\$10,258,000 on property, plant and equipment.

11. INVENTORIES

During the period, the Group purchased significant amount of raw materials to meet the Group's anticipated increase in sales demand in the second half of the year.

12. 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 receivables 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 follows:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
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	35,304	15,222
	<u>243,066</u>	<u>172,391</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

13. PLEDGED BANK DEPOSITS/FIXED BANK DEPOSITS

The amount represents bank deposits pledged to banks to secure bank overdraft and trust receipts loans facilities granted to the Group and therefore are classified as current assets. During the period, HK\$15,906,000 pledged bank deposits were released and the amounts were transferred to fixed bank deposits with maturity for a period of six months. In addition, additional bank deposits of HK\$1,355,000 were pledged to banks to secure general banking facilities granted to the Group.

Fixed bank deposits are short-term bank deposits with an original maturity of six months period. During the period, other than the amounts transferred from pledged bank deposits, additional amounts of approximately HK\$8,157,000 were placed to bank to generate the higher interest income.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

15. BANK BORROWINGS

During the period, the Group obtained new bank loans in the amount of approximately HK\$297,738,000 as additional working capital and made repayment of approximately HK\$216,674,000. The new loans bear interest ranged from 4% to 9% and are repayable by instalments over a period of one to six years.

16. COMMITMENTS

At 30th June, 2006, the Group had commitments of approximately HK\$24,851,000 (31.12.2005: HK\$5,363,000) for capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment and prepaid lease payments.

17. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure bank borrowings granted to the Group:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
Property, plant and equipment	19,602	37,576
Bank deposit	6,715	21,266
	<u>26,317</u>	<u>58,842</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

18. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the period, the Group entered into the following transactions with related parties:

Company	Relationship	Nature of transactions	Six months ended 30th June	
			2006 HK\$'000	2005 HK\$'000
Dr. Sung Chung Kwun	(Note 1)	Rental expenses	90	90
P.T. Shinetama Interfashion	(Note 2)	Sales of cotton	—	23,532
		Purchases of cotton yarn	33,834	17,256
Wai Yee Knitting Factory Limited	(Note 3)	Sales of raw white and dyed yarn	561	2,180
		Sales of sweater	—	314
		Purchases of raw and dyed yarn	—	125
		Subcontracting fee	—	1,289
		Rental income	134	60
Chung Fai Knitwear Fty., Ltd	(Note 4)	Dyeing expenses	—	892
		Sales of dyed yarn	—	6,624
Winner Knitting Factory Limited	(Note 4)	Knitting expenses	—	3,806
		Packaging expenses	—	239
		Transportation expenses	—	764
Dinghu Yongsheng Textiles Fty., Ltd.	(Note 5)	Purchases of raw white yarn	—	287
			<u> </u>	<u> </u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

18. RELATED PARTY DISCLOSURES – continued

(a) Related party transactions – continued

(Note 1) Dr. Sung Chung Kwun is a director and substantial shareholder of the Company.

(Note 2) Sung Chung Man, a brother of Dr. Sung Chung Kwun has beneficial interests in this company.

(Note 3) Sung Kit Ching and Wong Chun Fong, a daughter and daughter-in-law of Dr. Sung Chung Kwun have beneficial interests in this company.

(Note 4) Dr. Sung Chung Kwun has beneficial interest in these companies up to 28th March, 2005 and ceased to be a shareholder of these companies thereafter.

(Note 5) Sung Liang Hua, a brother of Dr. Sung Chung Kwun, has beneficial interest in this company.

(b) Amounts due from (to) related companies/a director

The amounts are unsecured, non-interest bearing and repayable on demand. The amount due to a director is fully repaid during the period.

(c) Compensation of key management personnel

The remuneration of directors and key executives of the Group is determined by the remuneration committee, having regard to the performance of individuals and market trends, amounted to HK\$3,216,000 (2005: HK\$2,562,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

19. POST BALANCE SHEET EVENT

Subsequent to 30th June, 2006, the Group entered into an agreement with Mr. Li Xian Chen and Ms. Song Aizhen for the acquisition of 100% equity interest of River Rich Textile Limited ("River Rich") for a consideration of approximately HK\$48,300,000. River Rich is a company incorporated in the Kingdom of Cambodia and engaged in the business of manufacturing and trading of knitted clothes, hat, gloves, socks and scarves. The transaction was completed on 30th August, 2006 and the consideration was satisfied by cash. The acquired assets and liabilities of River Rich at the completion date are not presented as the financial information of River Rich is not available at the date of this report. Details of the acquisition are set out in the Company's announcement and circular dated 11th July, 2006 and 1st August, 2006 respectively.

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 report 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 sales of dyed yarns, 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 in the 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.

Management Discussion and Analysis

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 continued 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 report, 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.

Management Discussion and Analysis

Financial Review

Turnover

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 yarns 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 represents around 30-40% of the annual turnover. For the period under review, total turnover slightly decreased by approximately 5% as compared with the 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 sales 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 in the 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 the 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.

Management Discussion and Analysis

Revenue generated from the provision of dyeing services also decreased slightly from approximately HK\$17.9 million in the 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 yarns 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 yarn 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 was used in its dyeing function.

The results 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%.

Cost of sales

With the continuous implementation of stringent cost control measures and enhancement in overall operational efficiency, the Group's cost of sales further decreased by 7.5% from HK\$293.0 million last corresponding period to HK\$271.1 million for the period under review, in line with the 5% decrease in turnover. Raw materials continued to be the major component in the cost of sales, which accounted for approximately 58.8% of the Group's overall cost of sales for the period under review. In line with the sharp increase in the sales of knitted sweaters by approximately 60% in the first half-year of 2006, the subcontracting charges for knitting substantially increased by approximately HK\$25.0 million.

Management Discussion and Analysis

Gross profit and gross profit margin

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 for the 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.

Net profit margin

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.

Other revenue

Other revenue of approximately HK\$6.1 million for the period under review mainly comprised the tax refund received from the PRC tax Bureau regarding the investment in Su Song, interest income and rental income from investment properties of the Group located in Hong Kong and the PRC. They are all industrial properties located in Hong Kong and an office unit located in the PRC.

Management Discussion and Analysis

Distribution costs

Distribution costs mainly included the transportation costs, accessories and packing expenses. For the period under review, the Group's distribution costs amounted to HK\$22.8 million, representing an increase of 40% when compared with the last corresponding period. With the upsurge in the international fuel prices and the continuous expansion in the market and business volume of sweaters throughout the period under review, the distribution costs increased accordingly.

Administrative expenses

Administrative expenses of approximately HK\$41.7 million mainly represented the staff costs including the salary expenses and staff welfare expenses, directors' remuneration, bank charges and depreciation. During the period under review, the administrative expenses increased by 17.9% from HK\$35.4 million for the previous period to HK\$41.7 million for the period under review, representing for 12.2% of the Group's turnover. The increment was mainly due to the increase of the staff costs, directors' remuneration and the legal and professional fee associated with the listing compliance matters.

Finance costs

Finance costs mainly comprised the interest on bank borrowings and obligations under finance leases. Amount slightly decreased by 21.5% from HK\$10.8 million for the previous period to HK\$8.5 million for the period under review for the reason of the inclusion of the imputed interest expenses of the shareholder's loan calculated with reference to the requirement of IAS 39.

Management Discussion and Analysis

Borrowings

As at 30th June, 2006, the Group had outstanding bank borrowings of approximately HK\$351.9 million, in which an amount of approximately HK\$308.7 million was due within one year and the remaining amount of approximately HK\$43.2 million was due within 2 to 5 years.

In line with the expansion of various business operating segment, the utilization rate on banking facilities increased and the bank borrowings level increased by around 38.5%, from approximately HK\$254.1 million as at 31st December, 2005 to approximately HK\$351.9 million as at 30th June, 2006. Gearing ratio, being the total bank borrowings divided by total assets, therefore increased from approximately 30.2% as at 31st December, 2005 to 38.4% as at 30th June 2006.

As at 30th June, 2006, certain land and buildings and machinery and equipment with an aggregated net book value of HK\$19.6 million and bank balances of HK\$6.7 million of the Group were utilized as security for the Group's borrowings.

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.

Management Discussion and Analysis

Stock turnover days

The stock turnover days of the Group for the period under review was approximately 157 days as compared to 101 days for the last year ended 31st December, 2005. Such increase was mainly due to the piling up of yarns, knitting panels and finished knitted sweaters for the upcoming peak season starting from Jul 2006. The stock turnover days will return to a normal level when the peak season started.

Debtors' turnover days

The debtors' turnover days was lengthened by 56 days from last year 70 days to 126 days, mainly attributable to the increase in the sales volume in the 2nd quarter of the period under review, especially in May and June 2006. This uneven distribution of the sales volume led to the approximately HK\$75.4 million or 46.4% increase in trade receivables as at the period end. Generally, the Group offers credit terms to its trade customers of 30 days to 120 days subject to the trading history and the individual creditability of the customers.

Dividend Policy

The declaration of dividends is subject to the discretion of the Directors, which is expected to take into account factors such as the Group's financial results, shareholders' interests, general business conditions and strategies, the Group's capital requirements, contractual restrictions on the payment of dividends by the Company to the shareholders or by the Group's subsidiaries to the Company, taxation considerations, possible effects on the Group's creditworthiness, statutory and regulatory restrictions and any other factors as the Directors may deem relevant. The Directors expect that the interim and final dividends will be declared and/or paid from time to time in an aggregate amount of no less than 25% of profits attributable to equity holders of the Company.

Taking into account into the cash required for the Group's capital investment in the second half of 2006, the board of Directors (the "Board") does not recommend the payment of interim dividends for the six months ended 30th June, 2006.

Other Information

DISCLOSURE OF INTERESTS

Interests of Directors and Chief Executive in securities

As at 30th June, 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long position in shares of HK\$0.01 each of the Company ("Shares")

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Dr. Sung Chung Kwun ("Dr. Sung")	Founder and settlor of discretionary trusts	300,000,000 (Note 1)	75%
Ms. Sung Lam Ching ("Ms. Sung")	Beneficiary of discretionary trust	267,000,000 (Note 2)	66.75%
Mr. Gary Q. Lau ("Mr. Lau")	Interest of spouse	267,000,000 (Note 3)	66.75%
Mr. Wong Chiu Hong ("Mr. Wong")	Beneficiary of discretionary trust	33,000,000 (Note 4)	8.25%
Ms. Mok Pui Mei ("Ms. Mok")	Beneficiary of discretionary trust	33,000,000 (Note 5)	8.25%
Mr. Ip Siu Lam ("Mr. Ip")	Beneficiary of discretionary trust	33,000,000 (Note 6)	8.25%

Other Information

Notes:

1. Dr. Sung is deemed to be interested in 300,000,000 Shares in the capacity as the (i) founder of The CK Sung's Trust, a discretionary trust whose discretionary objects are Ms. Tse Mui Chu, the spouse of Dr. Sung, Ms. Sung and Mr. Sung Kim Hung, the youngest son of Dr. Sung (the "Sung's Family Trust") and (ii) founder and settlor of The Addchance Employee's Trust, a discretionary employee trust for the benefit of employees of the Group, the discretionary objects of which are the employees of the Group from time to time including Mr. Wong, Ms. Mok and Mr. Ip and excluding Ms. Sung (the "Employee Trust"). Under the SFO, Dr. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited, the associated corporation of the Company holding 267,000,000 Shares, representing 66.75% of the issued share capital of the Company.
2. Ms. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of the Sung's Family Trust. Under the SFO, Ms. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited.
3. Mr. Lau being the spouse of Ms. Sung, is deemed to be interested in 267,000,000 Shares under the SFO.
4. Mr. Wong is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of the Employee Trust.
5. Ms. Mok is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of the Employee Trust.
6. Mr. Ip is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of the Employee Trust.

Save as disclosed above, as at 30th June, 2006, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Other Information

Interests of other persons in the share capital of the Company

As at 30th June, 2006, so far as is known to the Directors, the following persons (other than a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in Shares

(a) Substantial shareholders of the Company

Name	Capacity	Number of Shares	Approximate percentage of shareholding
GZ Trust Corporation ("GZ Trust") (Note 1)	Trustee of discretionary trusts	300,000,000	75%
Powerlink Industries Limited ("Powerlink") (Note 2)	Beneficial owner	267,000,000	66.75%
Ms. Tse Mui Chu ("Mrs. Sung") (Note 3)	Beneficiary of discretionary trust	267,000,000	66.75%
Mr. Sung Kim Hung (Note 4)	Beneficiary of discretionary trust	267,000,000	66.75%

Notes:

1. The entire issued share capital of Powerlink and Herojoy Trading Limited are owned by GZ Trust in its capacity as the trustee of (i) the Sung's Family Trust, a discretionary trust the founder (as defined in the SFO) of which is Dr. Sung and the discretionary objects of which are Mrs. Sung, Ms. Sung and Mr. Sung Kim Hung (excluding Dr. Sung himself), and (ii) the Employee Trust, a discretionary trust the founder (as defined in the SFO) and the settlor of which is Dr. Sung and the discretionary objects of which are the employees of the Group from time to time including Mr. Wong, Ms. Mok and Mr. Ip and excluding Ms. Sung. Accordingly, GZ Trust is deemed to be interested in the 300,000,000 Shares under the SFO.
2. The 267,000,000 Shares are beneficially owned by Powerlink, a company owned by GZ Trust as the trustee of the Sung's Family Trust.

Other Information

3. Mrs. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of the Sung's Family Trust.
 4. Mr. Sung Kim Hung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of the Sung's Family Trust.
- (b) Others person as recorded in the register kept by the Company pursuant to section 336 of the SFO

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Herojoy Trading Limited (<i>Note</i>)	Beneficial owner	33,000,000	8.25%

Note: The 33,000,000 Shares are beneficially owned by Herojoy Trading Limited, a company owned by GZ Trust as the trustee of the Employee Trust.

Save as disclosed above, as at 30th June, 2006, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 29 August 2005, the Company adopted a share option scheme under which the Directors may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares of the Company.

No options were granted, exercised, cancelled or lapsed during the six months ended 30th June, 2006.

Other Information

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 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. 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.

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.

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, interim results and the Interim Report for the six months ended 30th June, 2006.