錦藝紡織科技國際有限公司

ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code：565)

Annual Report 2007

Content

Corporate Information

BOARD OF DIRECTORS

Mr. Chen Jinyan *(Chairman)*
Mr. Chen Dong *(Chief Executive Officer)*
Ms. Kong Ping
Mr. Huang Yongfeng*
Mr. Yu Zhong Ming*
Mr. Lo Kin Chung*

* Independent Non-executive Director

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2402, 24th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1 – 1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1 – 1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

SHARE LISTING

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

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$645,575,000 (2006: HK$615,767,000) but the drop in profit for the year of HK$86,025,000 (2006: HK$92,346,000).

BUSINESS REVIEW

For the financial year ended 30 June 2007, by leveraging on its established strengths, experience and foresight, Art Textile 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 due to the increase in market demand of these three products and accordingly reducing the portion of men's and women's fashions to total sales. Since the technology for producing those three products are more advanced than the latter, the Group continuously installs new state-of-the-art dyeing auxiliary facilities to produce high quality and extensive varieties of products in order to meet the modification. The Group has then secured considerable orders of those three products. Apart from the above, the Group also expands its weaving production line throughout the year in the plant in Changle City of Fujian Province, the People's Republic of China (the "PRC"), approximately 30% of the dyeing production capacity is self supplied, hence, the quality of products and the production cost is closely monitored and the production cycle is then shortened.

By implementing 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 results.

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, Shaoxing and Changle, the Group maintains its well-established 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 " ". 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 arouses the attention of the public to sports activities; which in turn raises the demand of sports wear. The Group is endeavour to capture this opportunity to increase its market share by constantly researching and developing a series of functional sports wear.

Chairman's Statement

BUSINESS REVIEW(continued)

In order to prevent pollution to the environment through fabric dyeing, the Group places significant emphasis on environmental protection and operates a self-owned sewage treatment station to process and recycle sewage generated throughout the production process. The sewage treatment station has already been approved by the relevant environmental protection authorities. The Group has not been in breach of the relevant environmental protection laws and regulations since its establishment.

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, 28 September 2007

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven fabrics targeting at mid to high-end markets both in the PRC and overseas. The Group vertically integrates its production process, which include research and development, raw fabric weaving, dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's products are used for manufacturing down wear, sports wear, household products such as sofa and curtain and men's and women's fashions.

During the year, more dyeing auxiliary facilities for producing functional fabrics were purchased in order to increase the varieties of down wear, sports wear and household products with different nature, which in turn, boost the market expansion and increase selling prices to certain extent. In addition, more water jet rapier looms were purchased at the weaving plant in Changle City in May 2007, which has completed the installation and test run in June 2007 and will commence the production in the next financial year; approximately 30% of fabrics for dyeing process will be then self supplied. The Group's own weaving factory ensures steadier supply and better quality control of raw fabrics for the dyeing process, whilst shortens the production cycle.

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

Turnover

For the financial year ended 30 June 2007, the Group recorded an increase in turnover of approximately HK$645,575,000 (2006: HK$615,767,000), approximately 4.8% more than that in 2006. The increase in turnover was attributable to the market demand of down wear, sports wear and household products increased with the types of functional fabrics that sold at higher selling prices.

Gross Profit

The gross profit margin of the Group of approximately 28.6% in the current year was maintained at the same level as that in the previous year of approximately 29.2%. It is due to the increased and steady self-supplied raw fabrics productivity for dyeing process with better quality control and shorter production cycle.

Profit for the Year

The Group's profit for the financial year ended 30 June 2007 was approximately HK$86,025,000 (2006: HK$92,346,000), approximately 6.8% less than that in 2006. Net profit margin for the year ended 30 June 2007 was approximately 13.3% (2006: 15.0%). The edge down of net profit margin compared with previous year was due to loss on changes in the fair value of the convertible notes (the "CN") during the year.

Expenses

Selling and distribution costs amounted to approximately HK$18,326,000 (2006: HK$18,221,000), representing approximately 2.8% (2006: 3.0%) of turnover for the year ended 30 June 2007. The slight decrease in percentage of turnover was mainly due to the drop in transportation charges as a consequence of a change in delivery means of products to customers.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW (continued)

Expenses (continued)

Administrative expenses amounted to approximately HK$18,946,000 (2006: HK$14,190,000), representing approximately 2.9% (2006: 2.3%) of turnover for the year ended 30 June 2007. Administrative expenses increased by approximately 33.5% when compared with that of 2006. It was mainly due to the charge of the grant of share option during the year.

Other expenses amounted to approximately HK$3,992,000 (2006: HK$4,527,000), representing approximately 0.6% (2006: 0.7%) of turnover for the year ended 30 June 2007, which was maintained at the same level as previous year. Other expenses included loss on disposal of property, plant and equipment and research and development costs incurred during the year.

Loss on changes in fair value of the CN amounted to approximately HK$15,663,000 (2006: HK$9,765,000), representing approximately 2.4% (2006: 1.6%) of turnover for the year ended 30 June 2007. The upsurge was due to the increase in the fair value of the CN as a result of the increase in share price.

Finance costs amounted to approximately HK$1,097,000 (2006: HK$1,063,000), was the interest payments of bank borrowings and was maintained at the same level as previous year.

Dividend

An interim dividend of HK1.0 cent per ordinary share was paid to shareholders during the year. The Board recommends the payment of a final dividend of HK1.0 cent per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 29 November 2007 if approved at the forthcoming annual general meeting. Dividend warrants will be dispatched to the shareholders of the Company on or before 20 December 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

FUTURE PLANS AND PROSPECTS

As a result of the constant improvement of quality of life in the PRC, the demand for fashionable clothes and quality fabrics continuously increases. In order to diversify the customer base of the Group and tap the market potential, the Group preserves its strong distribution network in major textile markets in the PRC and overseas textile markets. The Group persists in its market expansion by maintaining good and close relationship with distribution agents and valuable customers and concreting its present sales and marketing team.

To maintain the competitiveness of the Group's products in the market, the Group targets to produce down wear, sports wear and household products as its main production in the future due to the increase in market demand of these three products and accordingly the portion of men's and women's fashions to total sales would be decreased. To cope with the change in product kind, the Group prolongs to invest approximately HK$110,000,000 for purchase of a piece of land adjacent to the plant in Changle City, construction of a multi-storey plant on it, setting up a new production line for knit fabrics and installation of new state-of-the-art dyeing auxiliary facilities for producing more varieties of functional fabrics in the future. After this expansion, the dyeing production capacity will be expected to increase by one-third of the existing capacity per annum.

On account of the continuous change in the trend of the textile and garment markets, the Group keeps putting effort in research and development of new products and improvement of existing products in order to meet the dynamic market needs.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had net current assets and total assets less current liabilities of approximately HK$492,019,000 (2006: HK$345,057,000) and HK$641,387,000 (2006: HK$543,242,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources. As at 30 June 2007, the Group had cash and bank deposits of approximately HK$491,132,000 (2006: HK$384,056,000). The current ratio of the Group was approximately 661.0% (2006: 484.3%).

Shareholders' fund of the Group as at 30 June 2007 was approximately HK$641,387,000 (2006: HK$460,252,000). As at 30 June 2007, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, denominated in RMB10,000,000, were equivalent to HK$10,000,000 (2006: HK$16,074,000), giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 1.6% (2006: 21.5%).

The financial health of the Group has been strong throughout the year as indicated by low gearing and high current ratio.

FINANCING

As at 30 June 2007, the total banking facilities of the Group amounted to about HK$25,000,000 (2006: HK$30,680,000), of which, HK$15,210,000 (2006: HK$22,545,000) was utilized.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited in September 2003, after deduction of related expenses, amounted to approximately HK$77,100,000. These proceeds were fully applied up to 30 June 2007 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 28 August 2003:

– as to approximately HK$56,000,000 for construction of additional production line for fabric dyeing and its auxiliary facilities;

– as to approximately HK$5,000,000 for expansion of distribution network and promotion of the Group's products and trademark;

– as to approximately HK$5,000,000 for product development (including the establishment of a new research and development centre and acquisition of research and development facilities);

– as to about HK$2,000,000 for the establishment of an e-commerce platform for managing logistics and information exchange between the Group and its distribution agents and for business to business e-commerce; and

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

Management Discussion and Analysis

CAPITAL STRUCTURE

As at 30 June 2007, the share capital of the Company comprises ordinary shares only. There was no outstanding CN at balance sheet date, Credit Suisse (Hong Kong) Limited ("Credit Suisse"), an independent investor, had converted the CN during the year.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

Though there was a currency appreciation of Renminbi throughout the year ended 30 June 2007, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings and the CN of the Group were denominated in Renminbi and US dollar, respectively. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

CHARGE ON GROUP'S ASSETS

As at 30 June 2007, certain plant and machinery of the Group with aggregate carrying value of approximately HK$34,189,000 (2006: HK$37,036,000) were pledged to a bank to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$3,473,000 (2006: HK$4,314,000).

As at 30 June 2006, certain buildings of the Group with aggregate carrying value of HK$871,000 were pledged to a bank to secure banking facilities granted to the Group.

Pursuant to a deed of assignment dated 3 December 2004, Credit Suisse would deposit the subscription funds for the convertible notes to an account of DB Trustees (Hong Kong) Limited (the "Account"). The Company would charge the Account and all moneys (including interest) from time to time standing to the credit to the Account, by way of fixed charge, in favour of DB Trustees (Hong Kong) Limited (who acts as security trustee for Credit Suisse) as continuing security for the payment and discharge of all moneys owing by the Company to Credit Suisse. As at 30 June 2007, no subscription funds (2006: US$5,000,000) was maintained in the Account.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$7,539,000 (2006: HK$12,694,000) in property, plant and equipment, of which 69.0% (2006: 7.0%) was used for purchase of plant and machinery, 31.0% (2006: 91.3%) for completion of new dormitories and warehouse.

As at 30 June 2007, the Group had capital commitments of approximately HK$500,000 (2006: HK$1,902,000) in property, plant and equipment or prepaid lease payments. The capital commitments in previous year were funded by internally generated resources.

Management Discussion and Analysis

STAFF POLICY

The Group had 468 employees altogether in the PRC and Hong Kong as at 30 June 2007. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

Each of the independent non-executive directors is appointed for a term of 1 year commencing from 1 September each year.

CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company did not have any significant contingent liabilities.

Directors

EXECUTIVE DIRECTORS

Mr. Chen Jinyan (陳錦艷), aged 38, is the Chairman of the Company and is responsible for the Group's operation and product development. Mr. Chen has over 16 years of experience in the textile industry. Mr. Chen obtained a diploma in the design of textile products from the textile engineering faculty of Jiangxi Textile Industry Academy (江西紡織工業學院). He is the elder brother of Mr. Chen Dong. He is the vice president and authorized representative of Textile Engineering Society of Fujian Province (福建省紡織工程學會) since 2006.

Mr. Chen Dong (陳錦東), aged 36, is a Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 13 years of experience in the textile industry. Mr. Chen obtained a diploma in industrial and financial accounting from the Fuzhou Industrial Academy (福州工業學院). He is the younger brother of Mr. Chen Jinyan.

Ms. Kong Ping (江萍), aged 39, is an Executive Director responsible for sales and marketing of the Group, especially implementing the Group's plan of expansion into overseas markets such as establishing the Group's distribution network. Ms. Kong has over 14 years of experience in sales and marketing of fabrics to local and overseas markets.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Kin Chung (勞健忠), aged 46, has been an Independent Non-executive Director since September 2004. He holds a Bachelor of Business degree from the University of Southern Queensland in Australia and a Master of Business Administration from the University of Surrey in the United Kingdom. He has over 17 years of experience in the accounting field. Mr. Lo is a Certified Public Accountant in Hong Kong and a certified practising accountant of CPA Australia.

Mr. Huang Yongfeng (黃勇峰), aged 37, has been an Independent Non-executive Director since June 2003. Mr. Huang was educated at the Power Engineering Department of Dalian University of Technology (大連理工大學) and obtained his degree in internal combustion engineering. He has also obtained a Master degree in Business Administration from the National University of Singapore. He is currently the General Manager of Chongqing Mondy Human Resource Consulting Co., Ltd (重慶蒙迪人才諮詢有限公司).

Mr. Yu Zhong Ming (俞忠明), aged 72, has been an Independent Non-executive Director since September 2004. Mr. Yu was educated at the Shanghai Hua Dong Textile College (上海華東紡織工學院) and obtained a diploma from the textile engineering faculty. Mr. Yu has over 44 years of experience in the textile industry. He has been the vice president of Textile Engineering Society of Fujian Province (福建省紡織工程學會) since 1996.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2007 are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement on page 26.

An interim dividend of HK1.0 cent per share amounting to HK$8,766,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1.0 cent per share to the shareholders whose names appear on the register of members on 29 November 2007, amounting to approximately HK$10,406,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 30 June 2007 comprised the dividend reserve and retained profits of HK$23,318,000 (2006: HK$13,369,000).

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Chen Dong
Mr. Chen Jinyan
Ms. Kong Ping

Independent non-executive directors:

Mr. Huang Yongfeng
Mr. Yu Zhong Ming
Mr. Lo Kin Chung

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Messrs. Huang Yongfeng and Yu Zhong Ming retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Dong and Ms. Kong Ping were re-appointed by the board of directors on 1 September 2007 to continue to act as the executive directors of the Company for a term of one year after the expiration of their service agreements on 31 August 2007. Whilst, the service agreement for Mr. Chen Jinyan expired on 31 August 2006 and he was reappointed by the board of directors on 1 September 2006 to continue to act as the executive director of the Company for a term of two years. All the above service agreements will be terminated by either party by giving three months' prior written notice.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Each of the independent non-executive directors entered into service agreements with the Company for a term of one year and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2007, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK1 cent each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Mr. Chen Dong	Held by controlled corporation (Note)	581,910,000	55.92%

Note: The shares are held by Talent Crown Investment Limited ("Talent Crown"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and both are the executive directors of the Company.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	8,500,000	8,500,000

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 June 2007.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities of, including debentures, the Company or any other body corporate.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK1 cent each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Concordia Advisors (Bermuda) Limited	Beneficial owner	179,355,000	17.24%
Veer Palthe Voute NV (Note)	Beneficial owner	76,055,000	7.31%

Note: These shares were beneficially held by Veer Palthe Voute NV whose ultimate holding company, Allianz Aktiengesellschaft, indirectly holds 81.1% interest in Veer Palthe Voute NV.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2007.

Directors' Report

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the consolidated financial statements.

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

Grantee	Date of grant	Exercise period	Exercise price	Outstanding at 1.7.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30.6.2007
			HK$					
Directors								
Mr. Chen Jinyan	23.12.2003	23.12.2003 to 22.12.2013	0.612	4,000,000	–	–	–	4,000,000
	4.12.2006	2.1.2007 to 1.1.2012	0.45	–	4,500,000	–	–	4,500,000
				4,000,000	4,500,000	–	–	8,500,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	34,250,000	–	–	(3,000,000)	31,250,000
	4.12.2006	2.1.2007 to 1.1.2012	0.45	–	19,700,000	(1,200,000)	–	18,500,000
				34,250,000	19,700,000	(1,200,000)	(3,000,000)	49,750,000
Granted Total				38,250,000	24,200,000	(1,200,000)	(3,000,000)	58,250,000

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company consider all of the independent non-executive directors are independent.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 30% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 9% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 73% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 20% of the Group's total purchase.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 30 June 2007.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chen Jinyan
CHAIRMAN

Hong Kong
28 September 2007

Report on Corporate Governance Practices

The Group is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Group. During the year ended 30 June 2007, the Group applied the principles and met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2007.

BOARD OF DIRECTORS (THE "BOARD")

The composition of the Board, with at least one-third of which are independent non-executive directors, is as follows:

Mr. Chen Jinyan	*(Chairman, Executive Director)*
Mr. Chen Dong	*(Chief Executive Officer, Executive Director)*
Ms. Kong Ping	*(Executive Director)*
Mr. Lo Kin Chung	*(Independent Non-executive Director)*
Mr. Huang Yongfeng	*(Independent Non-executive Director)*
Mr. Yu Zhong Ming	*(Independent Non-executive Director)*

Each executive Director of the Company (the "Executive Director") has sufficient experience to hold the position so as to carry out his or her duties effectively and efficiently.

Each independent non-executive Director of the Company (the "Independent Non-executive Director") has confirmed his independence with the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other; except that Mr. Chen Jinyan is the elder brother of Mr. Chen Dong.

Report on Corporate Governance Practices

BOARD OF DIRECTORS (THE "BOARD") (continued)

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the financial year ended 30 June 2007, 7 board meetings were held and the attendance of all Directors at the Board meetings is as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	7/7
Mr. Chen Dong	7/7
Ms. Kong Ping	7/7
Mr. Lo Kin Chung	7/7
Mr. Huang Yongfeng	7/7
Mr. Yu Zhong Ming	7/7

The Board convened the Board meetings in performance of its duties, to consider, inter alia,

- amendments to the Articles of Association of the Company;
- approval of resignation and appointment of company secretary;
- approval of the interim review fee for the period ended 31 December 2006 and the annual audit fee for the year ended 30 June 2007;
- approval of the grant of share options during the financial year ended 30 June 2007;
- declaration, recommendation and payment of interim and final dividend;
- approval for publication of interim and annual results announcements; and
- approval of the conversion of convertible notes and issuance and allotment of relevant shares.

OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as market expansion and product development while the senior management is responsible for execution of the Board's decision in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is responsible for the preparation of financial statements by selecting and applying appropriate accounting policies. It is the responsibility of the auditor to form an independent opinion on those statements and to report their opinion to the Group; whether the financial statements give a true and fair view of the state of affairs of the Group as at balance sheet date and of the income statement and cash flows of the Group for each financial year, as well as proper preparation in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on Corporate Governance Practices

OPERATION OF THE BOARD (continued)

The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. An auditor conducted review of the effectiveness of the Group's system of internal control. The Audit Committee reviewed the findings and opinion of the auditor on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2007, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Dong who is the younger brother of Mr. Chen Jinyan.

The duties of the Chairman include the following:

(a) to ensure all Directors are properly briefed on issues arising at board meetings;

(b) to ensure Directors receive adequate information, which must be complete and reliable, in a timely manner;

(c) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website/press announcements, circular, interim and annual reports and holding of annual general meeting etc.;

(d) to ensure that good corporate governance practices and procedures are established; and

(e) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include the following:

(a) to be responsible for the day-to-day management of the Group's business;

(b) to be responsible for the performance of the Group and the implementation of the Board's strategy and policies;

(c) to maintain an effective system of internal control;

(d) to ensure that proper financial records and accounts are kept; and

(e) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.

Report on Corporate Governance Practices

COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties had been discussed and approved in the Board meeting.

AUDIT COMMITTEE

With specific terms of reference, the audit committee of the Company (the "AC") comprises three members, all being Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhong Ming. Mr. Lo Kin Chung is a Certified Public Accountant and chairman of the AC.

The role and function of the AC are as follows:

(a) to recommend the Board on the appointment, reappointment and removal of external auditors, as well as to approve the remuneration and terms of engagement of the external auditors;

(b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports;

(c) to review and make recommendations of the Group's financial control, internal control and risk management systems;

(d) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control systems; and

(e) to review the Group's financial and accounting policies and practices.

During the financial year ended 30 June 2007, 5 AC meetings were held and the attendance of members is as follows:

Name of members	**Attendance**
Mr. Lo Kin Chung	5/5
Mr. Huang Yongfeng	5/5
Mr. Yu Zhong Ming	5/5

The following is a summary of the work performed by the AC during the year ended 30 June 2007 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;

- assessed the risk environment, reviewed internal control procedure manual of the Group and auditor's findings and opinion on the Group's system of internal control and considered that the internal control system is effective and adequate; and

- considered and approved the annual audit fee and interim review fee.

AUDIT COMMITTEE (continued)

The chairman of the AC will report the findings and recommendations of the AC to the Board after each meeting.

The AC had discussed with the auditor regarding the annual audit for the year ended 30 June 2006 and the interim review for the period ended 31 December 2006 before the Board meeting.

REMUNERATION COMMITTEE

With specific terms of reference, all members of the Remuneration Committee (the "RC") are Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhong Ming. Mr. Lo Kin Chung is the chairman of the RC.

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, determining their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his associate(s) is involved in deciding his own remuneration.

The chairman of the RC will report the findings and recommendations of the RC to the Board after each meeting.

During the financial year ended 30 June 2007, there were 2 RC meetings and the attendance of members is as follows:

Name of members	Attendance
Mr. Lo Kin Chung	2/2
Mr. Huang Yongfeng	2/2
Mr. Yu Zhong Ming	2/2

The following is a summary of the work performed by the RC during the year ended 30 June 2007:

- reviewed the remuneration policy for the financial year ended 30 June 2007;
- reviewed the remuneration of Executive Directors; and
- reviewed the accounting treatment and financial implications of the employees' share options granted during the financial year ended 30 June 2007 under the newly issued Hong Kong Financial Reporting Standards.

Report on Corporate Governance Practices

NOMINATION COMMITTEE

With specific terms of reference, all members of the Nomination Committee of the Company (the "NC") are Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhong Ming. Mr. Lo Kin Chung is the chairman of the NC.

The role and function of the NC include the following:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to make recommendations to the Board on relevant matters relate to the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company in particular the chairman and the chief executive officer of the Company; and

(d) to assess the independence of Independent Non-executive Directors of the Company.

The chairman of the NC will report the findings and recommendations of the NC to the Board after each meeting.

During the financial year ended 30 June 2007, there was 1 NC meeting and the attendance of members is as follows:

Name of members	**Attendance**
Mr. Lo Kin Chung	1/1
Mr. Huang Yongfeng	1/1
Mr. Yu Zhong Ming	1/1

The NC recommended that one Executive Director, Mr. Chen Jinyan and one Independent Non-executive Director, Mr. Lo Kin Chung, retiring by rotation at the annual general meeting held in November 2006, be re-elected. The NC made this recommendation for re-appointment based on their contributions to the Board. The Board accepted the NC's recommendation and accordingly, the Executive Director and the Independent Non-executive Director above offered themselves for re-election at the annual general meeting. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

Report on Corporate Governance Practices

AUDITOR'S SERVICES

(a) Audit service

Deloitte Touche Tohmatsu ("DTT") becomes the auditor of the Company since 2004. The fees for annual audit quoted by DTT had been reviewed by the Board and the AC annually. For the year ended 30 June 2007, the auditor's remuneration was HK$820,000.

(b) Non-audit service

The fee charged by DTT of interim review for the period ended 31 December 2006 was HK$163,000. DTT reviewed the interim financial statements and made a review conclusion.

COMMUNICATION WITH SHAREHOLDERS

The Board uses annual general meetings to communicate with shareholders and encourages their participation. At the annual general meeting held in 2006, the Chairman proposed a separate resolution in respect of each substantially separate issue and arranged a member of the AC to answer questions at the meeting.

VOTING BY POLL

The circular in relation to general mandates to issue and repurchase shares for the year ended 30 June 2006 disclosed the procedures for and the rights of shareholders to demand a poll at the annual general meeting. At the commencement of the annual general meeting, the Chairman explained the detailed procedures for conducting a poll to the shareholders. The Company properly counted and recorded all proxy votes. Then the Chairman indicated the level of proxies lodged on each resolution and the balance for and against the resolution to shareholders.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF
ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED
錦藝紡織科技國際有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Art Textile Technology International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 57, which comprise the consolidated balance sheet as at 30 June 2007 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 September 2007

Consolidated Income Statement

For the year ended 30 June 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
Turnover		**645,575**	615,767
Cost of sales		**(460,906)**	(435,834)
Gross profit		**184,669**	179,933
Other income	6	**5,370**	5,173
Selling and distribution costs		**(18,326)**	(18,221)
Administrative expenses		**(18,946)**	(14,190)
Other expenses		**(3,992)**	(4,527)
Loss on changes in fair value of convertible notes		**(15,663)**	(9,765)
Finance costs	7	**(1,097)**	(1,063)
Profit before tax		**132,015**	137,340
Income tax expense	8	**(45,990)**	(44,994)
Profit for the year	9	**86,025**	92,346
Dividends paid	11	**17,532**	21,914
Earnings per share	12		
Basic, in Hong Kong cents		**9.73**	10.54
Diluted, in Hong Kong cents		**9.71**	9.53

Consolidated Balance Sheet

At 30 June 2007

	NOTES	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**133,164**	145,166
Prepaid lease payments – non-current portion	14	**14,105**	14,012
Pledged bank deposits	17	**–**	39,007
Deposits for acquisition of plant and equipment		**2,099**	–
		149,368	198,185
CURRENT ASSETS			
Inventories	15	**25,729**	28,163
Trade and other receivables	16	**62,529**	61,306
Prepaid lease payments – current portion	14	**327**	317
Pledged bank deposits	17	**3,473**	4,314
Bank balances and cash	18	**487,659**	340,735
		579,717	434,835
CURRENT LIABILITIES			
Trade and other payables	19	**58,031**	56,592
Tax liabilities		**19,667**	17,112
Bank borrowings, secured	20	**10,000**	16,074
		87,698	89,778
NET CURRENT ASSETS		**492,019**	345,057
		641,387	543,242
CAPITAL AND RESERVES			
Share capital	21	**10,406**	8,766
Dividend reserve		**10,406**	8,766
Share premium and other reserves		**620,575**	442,720
		641,387	460,252
NON-CURRENT LIABILITY			
Convertible notes	22	**–**	82,990
		641,387	543,242

The consolidated financial statements on pages 26 to 57 were approved and authorised for issue by the Board of Directors on 28 September 2007 and are signed on its behalf by:

Chen Jinyan
DIRECTOR

Chen Dong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Statutory reserve fund HK$'000	Dividend reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2005	8,766	69,369	136	32	34,013	13,148	–	254,597	380,061
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	9,759	–	–	–	–	9,759
Profit for the year	–	–	–	–	–	–	–	92,346	92,346
Total recognised income and expense for the year	–	–	–	9,759	–	–	–	92,346	102,105
Transfer	–	–	–	–	10,444	–	–	(10,444)	–
Final dividend paid	–	–	–	–	–	(13,148)	–	–	(13,148)
Proposed interim dividend	–	–	–	–	–	8,766	–	(8,766)	–
Interim dividend paid	–	–	–	–	–	(8,766)	–	–	(8,766)
Proposed final dividend	–	–	–	–	–	8,766	–	(8,766)	–
At 1 July 2006	8,766	69,369	136	9,791	44,457	8,766	–	318,967	460,252
Exchange difference on translation of foreign operations recognised directly in equity	–	–	–	12,844	–	–	–	–	12,844
Profit for the year	–	–	–	–	–	–	–	86,025	86,025
Total recognised income and expense for the year	–	–	–	12,844	–	–	–	86,025	98,869
Transfer	–	–	–	–	10,736	–	–	(10,736)	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	1,777	–	1,777
Issue of shares upon conversion of convertible notes	1,628	95,853	–	–	–	–	–	–	97,481
Issue of shares upon exercise of share options	12	616	–	–	–	–	(88)	–	540
Final dividend paid	–	–	–	–	–	(8,766)	–	–	(8,766)
Proposed interim dividend	–	–	–	–	–	8,766	–	(8,766)	–
Interim dividend paid	–	–	–	–	–	(8,766)	–	–	(8,766)
Proposed final dividend	–	–	–	–	–	10,406	–	(10,406)	–
At 30 June 2007	10,406	165,838	136	22,635	55,193	10,406	1,689	375,804	641,387

The statutory reserve fund is a reserve required by the relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiaries. Appropriations to such reserves are made out of profit for the year as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective board of directors annually.

Consolidated Cash Flow Statement

For the year ended 30 June 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**132,015**	137,340
Adjustments for:		
Depreciation on property, plant and equipment	**19,732**	25,984
Interest expense	**1,097**	1,063
Interest income	**(4,782)**	(3,614)
Loss on changes in fair value of convertible notes	**15,663**	9,765
Loss on disposal of property, plant and equipment	**2,565**	2,478
Share-based payment expense	**1,777**	–
Release of prepaid lease payments	**327**	317
Reversal of write-down of inventories	**(34)**	(18)
(Write-back of) allowance for bad and doubtful debts	**(9)**	187
Operating cash flows before movements in working capital	**168,351**	173,502
Decrease in inventories	**3,313**	1,880
(Increase) decrease in trade and other receivables	**(1,617)**	2,421
Decrease in trade and other payables	**(235)**	(4,634)
Cash generated from operations	**169,812**	173,169
Income tax paid	**(43,948)**	(42,059)
NET CASH FROM OPERATING ACTIVITIES	**125,864**	131,110
INVESTING ACTIVITIES		
Decrease in pledged bank deposits	**39,977**	2,086
Interest received	**4,782**	3,614
Proceeds on disposal of property, plant and equipment	**1,590**	971
Purchases of property, plant and equipment	**(7,539)**	(12,694)
Deposits for acquisition of plant and equipment	**(2,099)**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**36,711**	(6,023)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(21,556)**	(24,184)
Dividends paid	**(17,532)**	(21,914)
Payment of interest on convertible notes	**(1,172)**	(590)
Interest paid on bank borrowings	**(1,097)**	(1,063)
New bank borrowings raised	**15,000**	16,074
Proceeds on issue of shares upon exercise of share options	**540**	–
NET CASH USED IN FINANCING ACTIVITIES	**(25,817)**	(31,677)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**136,758**	93,410
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**10,166**	6,938
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**340,735**	240,387
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**487,659**	340,735

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Talent Crown Investment Limited, a company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 30.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 July 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions[4]
HK(IFRIC)-Int 12	Service Concession Arrangements[5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[6]
HK(IFRIC)-Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008
[6] Effective for annual periods beginning on or after 1 July 2008

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related tax.

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year which the item is derecognised.

Prepaid lease payments

Prepaid lease payments which represent up-front payments to acquire leasehold interests in land are stated at cost and released to profit or loss over the period of the lease on a straight line basis.

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses on the same basis as intangible assets acquired separately.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the relevant lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the company (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, comprising financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise ; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Convertible loan notes issued by the Group that comprise liability host contract and embedded non-equity conversion option component are designated as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Other financial liabilities

Other financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted and vested prior to 1 July 2005

The Group did not recognise the financial effect of these share options until they were exercised.

Upon the exercise of the share options, the resulting shares issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions *(continued)*

Share options granted after 7 November 2002 and vested on or after 1 July 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to the share premium account. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

4. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market Risk

Interest rate risk

The Group's exposure to cash flow interest rate risk relates primarily to the variable-rate bank balances and bank borrowings.

As at 30 June 2006, the Group also exposed to fair value interest rate risks which is related primarily to its fixed-rate bank borrowings and convertible notes.

The Group currently does not have a policy to hedge against the cash flow interest rate risk as management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, management monitors closely the interest rate exposure and will consider using interest rate swap when the need arises.

4. FINANCIAL INSTRUMENTS *(continued)*

a. Financial risk management objectives and policies *(continued)*

(ii) Credit Risk

As at 30 June 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In addition, the Group has a concentration of credit risk in certain of its major customers for sales of textile products. At the balance sheet date, the outstanding balances from the five largest customers amounted to approximately HK$15,608,000. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with good reputation.

(iii) Liquidity Risk

The objective of the Group is to maintain a balance between the continuity of funding and the flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for general funding purposes.

b. Fair value

The fair value of financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as inputs.

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

5. SEGMENT INFORMATION

No analysis on business segment is provided as substantially all the Group's turnover and segment results were derived from the manufacture and sale of finished woven fabrics. In addition, no geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the People's Republic of China (the "PRC") and the assets are substantially located in the PRC.

6. OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Bank interest income	**4,782**	3,614
Exchange gain, net	**427**	1,458
Others	**161**	101
	5,370	5,173

7. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**1,097**	1,063

8. INCOME TAX EXPENSE

	2007	2006
	HK$'000	HK$'000
PRC Foreign Enterprise Income Tax ("FEIT"):		
Current tax	**45,990**	42,702
Underprovision in the prior year	**–**	2,292
	45,990	44,994

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

8. INCOME TAX EXPENSE *(continued)*

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan") and Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng") are subsidiaries of the Company established in the PRC. Fuzhou Huasheng is exempted from the FEIT for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from FEIT for the following three years under the relevant rules and regulations of the PRC. The tax exempt period of Fuzhou Huasheng expired on 31 December 2006 and its applicable preferential tax rate, which is 50% relief for the following three years, was 15% for the period from 1 January 2007 to 30 June 2007.

The applicable tax rate for Fuzhou Huaguan was 27% for the year ended 30 June 2007.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2007	2006
	HK$'000	HK$'000
Profit before tax	**132,015**	137,340
Tax at the income tax rate of 27%	**35,644**	37,082
Tax effect of expenses not deductible for tax purpose	**9,110**	5,228
Tax effect of income not taxable for tax purpose	**(1,462)**	(903)
Effect of tax losses not allowable by Hong Kong tax authority	**2,698**	1,295
Underprovision in respect of the prior year	**–**	2,292
Tax charge for the year	**45,990**	44,994

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

9. PROFIT FOR THE YEAR

	2007	2006
	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**820**	820
Staff costs		
– directors' emoluments	**4,390**	4,040
– other staff costs	**12,570**	11,292
– other staff's retirement benefit scheme contributions	**1,501**	1,491
– other staff's share-based payment expense	**1,429**	–
	19,890	16,823
(Write-back of) allowance for bad and doubtful debts	**(9)**	187
Reversal of write-down of inventories	**(34)**	(18)
Depreciation on property, plant and equipment	**19,732**	25,984
Loss on disposal of property, plant and equipment	**2,565**	2,478
Release of prepaid lease payments	**327**	317
Research and development costs	**1,398**	1,738

Research and development costs include staff costs of HK$399,000 (2006: HK$172,000), which are also included in the staff costs disclosed separately above.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the six (2006: six) directors were as follows:

(a) Directors' emoluments

Details of emoluments of individual directors are set out as follows:

2007

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payment expense HK$'000	Total HK$'000
Mr. Chen Dong	–	1,800	9	–	1,809
Mr. Chen Jinyan	–	1,440	9	348	1,797
Ms. Kong Ping	–	600	12	–	612
Mr. Huang Yongfeng	36	–	–	–	36
Mr. Yu Zhong Ming	36	–	–	–	36
Mr. Lo Kin Chung	100	–	–	–	100
	172	3,840	30	348	4,390

2006

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chen Dong	–	1,800	8	1,808
Mr. Chen Jinyan	–	1,440	8	1,448
Ms. Kong Ping	–	600	12	612
Mr. Huang Yongfeng	36	–	–	36
Mr. Yu Zhong Ming	36	–	–	36
Mr. Lo Kin Chung	100	–	–	100
	172	3,840	28	4,040

No directors waived any emoluments for both years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2007 included three (2006: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2006: two) individuals are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,103**	1,062
Retirement benefit scheme contributions	**19**	15
Share-based payment expense	**661**	–
	1,783	1,077

11. DIVIDENDS PAID

	2007	2006
	HK$'000	HK$'000
Dividends recognised as distribution during the year:		
Interim – HK1.0 cent per share (2006: HK1.0 cent per share)	**8,766**	8,766
Final – HK1.0 cent per share (2006: HK1.5 cents per share)	**8,766**	13,148
	17,532	21,914

Subsequent to 30 June 2007, the final dividend of HK1.0 cent per share (2006: HK1.0 cent per share) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK$'000	2006 HK$'000
Earnings:		
Profit for the year and earnings for the purposes of basic earnings per share	**86,025**	92,346
Effect of dilutive potential ordinary shares:		
Convertible notes	**–**	9,765
Earnings for the purposes of diluted earnings per share	**86,025**	102,111

	2007 '000	2006 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**884,193**	876,558
Effect of dilutive potential ordinary shares:		
Share options	**1,815**	–
Convertible notes	**–**	194,805
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**886,008**	1,071,363

The computation of diluted earnings per share for the year ended 30 June 2006 does not assume the exercise of the Company's outstanding share options granted on 23 December 2003, as the exercise price of those options is higher than the average market price for the share for that year.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures, office equipment and motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 July 2005	84,678	118,103	1,940	3,510	7,075	215,306
Exchange realignment	2,466	3,440	47	96	206	6,255
Additions	–	887	–	216	11,591	12,694
Transfer	–	4,363	–	–	(4,363)	–
Disposals	–	(30,973)	–	–	–	(30,973)
At 30 June 2006	87,144	95,820	1,987	3,822	14,509	203,282
Exchange realignment	2,615	2,873	50	108	436	6,082
Additions	40	5,201	–	–	2,298	7,539
Transfer	16,708	535	–	–	(17,243)	–
Disposals	–	(7,300)	–	–	–	(7,300)
At 30 June 2007	**106,507**	**97,129**	**2,037**	**3,930**	**–**	**209,603**
DEPRECIATION						
At 1 July 2005	19,470	35,530	620	2,351	–	57,971
Exchange realignment	567	1,035	16	67	–	1,685
Provided during the year	7,889	17,171	397	527	–	25,984
Eliminated on disposals	–	(27,524)	–	–	–	(27,524)
At 30 June 2006	27,926	26,212	1,033	2,945	–	58,116
Exchange realignment	838	786	27	85	–	1,736
Provided during the year	9,185	9,768	407	372	–	19,732
Eliminated on disposals	–	(3,145)	–	–	–	(3,145)
At 30 June 2007	**37,949**	**33,621**	**1,467**	**3,402**	**–**	**76,439**
CARRYING VALUES						
At 30 June 2007	**68,558**	**63,508**	**570**	**528**	**–**	**133,164**
At 30 June 2006	59,218	69,608	954	877	14,509	145,166

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 30 June 2007, the Group pledged certain plant and machinery with aggregate carrying values of HK$34,189,000 (2006: HK$37,036,000) to a bank to secure banking facilities granted to the Group.

At 30 June 2006, the Group also pledged certain buildings with aggregate carrying values of HK$871,000 to a bank to secure banking facilities granted to the Group.

The above items of property, plant and equipment are depreciated on straight line basis at the following rates per annum:

Buildings	10%
Plant and machinery	10% – 20%
Leasehold improvements	20%
Furniture, fixtures, office equipment and motor vehicles	20%

14. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold interest in land under medium-term lease in the PRC	**14,432**	14,329
Analysed for reporting purposes as:		
Non-current assets	**14,105**	14,012
Current assets	**327**	317
	14,432	14,329

At 30 June 2006, the Group pledged certain prepaid lease payments with a carrying amount of HK$884,000 to banks to secure banking facilities granted to the Group. The pledge was released during the year.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

15. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**3,918**	3,966
Work in progress	**15,102**	10,724
Finished goods	**6,709**	13,473
	25,729	28,163

16. TRADE AND OTHER RECEIVABLES

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

	2007 HK$'000	2006 HK$'000
0 – 60 days	**53,870**	56,761
61 – 90 days	**428**	2,072
Over 90 days	**6,269**	809
Trade receivables	**60,567**	59,642
Other receivables	**1,962**	1,664
	62,529	61,306

17. PLEDGED BANK DEPOSITS

At 30 June 2006, an amount of US$5,000,000, equivalent to HK$39,007,000 was held by the bank as continuing security for the convertible notes issued. The deposit had been pledged to secure convertible notes which would be repayable on 6 December 2007 and was therefore classified as non-current assets. The pledged deposit was released due to the conversion of the convertible notes during the year. Details of the conversion are set out in note 22.

The remaining deposits of HK$3,473,000 (2006: HK$4,314,000) are pledged to a bank to secure facilities granted to the Group. The deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The pledged bank deposits will be released upon settlement of relevant borrowings.

The deposits carry interest rate at 0.72% per annum (2006: 0.72% to 3.60% per annum).

18. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.72% to 3.0% (2006: 0.72% to 3.0%) per annum and have original maturity of three months or less.

19. TRADE AND OTHER PAYABLES

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

	2007	2006
	HK$'000	HK$'000
0 – 60 days	**41,069**	40,001
61 – 90 days	**90**	–
Trade payables	**41,159**	40,001
Other payables	**16,872**	16,591
	58,031	56,592

20. BANK BORROWINGS, SECURED

The Group's bank borrowings are wholly repayable within one year and are secured by the following:

(i) certain plant and machinery as set out in note 13; and

(ii) pledged bank deposits as set out in note 17.

The exposure of the Group's fixed-rate borrowings and variable-rate borrowings and the contractual maturity dates or repricing dates are as follows:

	Fixed-rate borrowings HK$'000	**Variable-rate borrowings HK$'000**	**Total HK$'000**
2007:			
Within one year	**–**	**10,000**	**10,000**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

20. BANK BORROWINGS, SECURED *(continued)*

	Fixed-rate borrowings HK$'000	Variable-rate borrowings HK$'000	Total HK$'000
2006:			
Within one year	6,408	9,666	16,074

The ranges of effective interest rates per annum (which are equal to contractual interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**N/A**	6.37% to 7.02%
Variable-rate borrowings	**5.17% to 7.00%**	5.03% to 6.71%

21. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 July 2005, 30 June 2006 and 30 June 2007	2,000,000,000	20,000
Issued and fully paid:		
At 1 July 2005 and 30 June 2006	876,557,583	8,766
Conversion of convertible notes (Note a)	162,845,000	1,628
Exercise of share options (Note b)	1,200,000	12
At 30 June 2007	**1,040,602,583**	**10,406**

Notes:

(a) On 14 June 2007, convertible notes issued by the Company with face value of US$10,000,000 (equivalent to approximately HK$78,171,000) were converted into 162,845,000 ordinary shares of HK$0.01 each of the Company.

(b) During the year, 1,200,000 ordinary shares of HK$0.01 each in the Company were issued upon exercise of share options at subscription price of HK$0.45 per share.

The shares issued during the year rank pari passu with the existing shares in all respects.

22. CONVERTIBLE NOTES

	2007 HK$'000	2006 HK$'000
Convertible notes – unlisted	–	82,990

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

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

Credit Suisse had an option to convert the CN into ordinary shares of the Company at the option of the bondholder, at any time between the date of issue of the CN to the maturity date of 6 December 2007 at either of the following options:

(i) fixed conversion price of HK$0.8579; or

(ii) floating conversion price being 91% of the average of any 4 consecutive closing prices per share as selected by the bondholder during the 30 consecutive business days immediately prior to the date on which the conversion notice is received by the Company.

Details of the CN are set out in an announcement made by the Company on 8 December 2004. The ordinary shares to be issued upon such conversion rank pari passu in all respects with the ordinary shares of the Company in issue on the relevant conversion date.

Pursuant to a deed of assignment dated 3 December 2004, Credit Suisse deposited the subscription funds for the CN into an account of DB Trustees (Hong Kong) Limited (the "Account"). The Company charged the Account and all moneys (including interest) from time to time standing to the credit of the Account, by way of fixed charge, in favour of DB Trustees (Hong Kong) Limited (who acts as security trustee for Credit Suisse) as continuing security for the payment and discharge of all money owing by the Company to Credit Suisse. Details on the pledged deposits are set out in note 17 to the consolidated financial statements.

The CN was designated as financial liabilities through profit or loss.

On 14 June 2007, the Company received a conversion notice from Credit Suisse to convert in full the CN. The conversion price for the conversion is HK$0.480025 and the whole CN was converted into 162,845,000 ordinary shares of HK$0.01 each of the Company.

The CN was measured at fair value at each balance sheet date and at the date of its conversion into shares of the Company. The CN contain two components, liability and embedded non-equity conversion option. Fair value of the liability host contract is determined based on discounted cash flow model. The discount rate of 6.57% was used in applying the discounted cash flow model. Fair value of the embedded non-equity conversion option is determined based on binomial model, volatility of 33.46% and risk-free rate of 4.78% were used as input in valuing the call option of the shares.

As at 14 June 2007, the fair value of the CN in total is HK$97,483,000.

The interest expense on the convertible notes included in the fair value change of convertible notes for both years.

Notes to the Consolidated Financial Statements

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23. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers, of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 10 September 2003 (the "Listing date") and, unless otherwise terminated or amended, will remain in force for 10 years.

At 30 June 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 58,250,000 (2006: 38,250,000), representing approximately 6% (2006: 4%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Listing date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

On 4 December 2006, the Company granted share options to entitle the holders to subscribe for shares in the Company at the exercise price of HK$0.45 per share with exercise period from 2 January 2007 to 1 January 2012.

The closing price of the Company's shares immediately before 4 December 2006, the date of grant of the options, was HK$0.45.

23. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

The following table discloses movements of the Company's share options held by directors and employees during the two years:

Category	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2005 and 1.7.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30.6.2007
Directors	23.12.2003	23.12.2003 to 22.12.2013	0.612	4,000,000	–	–	–	4,000,000
	4.12.2006	2.1.2007 to 1.1.2012	0.45	–	4,500,000	–	–	4,500,000
				4,000,000	4,500,000	–	–	8,500,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	34,250,000	–	–	(3,000,000)	31,250,000
	4.12.2006	2.1.2007 to 1.1.2012	0.45	–	19,700,000	(1,200,000)	–	18,500,000
				34,250,000	19,700,000	(1,200,000)	(3,000,000)	49,750,000
Granted Total				38,250,000	24,200,000	(1,200,000)	(3,000,000)	58,250,000
Exercisable at year end								58,250,000

In respect of the share options exercised during the year, the weighted average share price at the date of exercise and immediately before the date of exercise are HK$0.70 (2006: nil).

The fair value of the options granted on 4 December 2006 is HK$1,777,000.

The fair value of the share options granted during the year was calculated using The Black-Scholes option pricing model. The inputs into the model was as follows:

	2007
Weighted average share price at the date of acceptance	**HK$0.45**
Weighted average exercise price	**HK$0.45**
Expected life of options	**5 years**
Expected volatility	**27%**
Expected dividend yield	**5.50%**
Risk free rates	**3.79%**

Expected volatility was determined by using the historical volatility of the Company's share price over the past year. The expected life used in the model has been estimated, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the share-based payment expense of HK$1,777,000 for the year ended 30 June 2007 (2006: nil) in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

24. BALANCE SHEET OF THE COMPANY

	Note	**2007** **HK$'000**	2006 HK$'000
TOTAL ASSETS		**395,269**	357,179
TOTAL LIABILITIES		**21,268**	92,925
		374,001	264,254
CAPITAL AND RESERVES			
Share capital		**10,406**	8,766
Dividend reserve	(a)	**10,406**	8,766
Share premium and other reserves	(a)	**353,189**	246,722
		374,001	264,254

Note:

(a) SHARE PREMIUM AND OTHER RESERVES

	Share premium HK$'000	**Capital reserve** HK$'000	**Dividend reserve** HK$'000	**Share option reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 July 2005	69,369	172,750	13,148	–	13,970	269,237
Profit for the year	–	–	–	–	8,165	8,165
Final dividend paid	–	–	(13,148)	–	–	(13,148)
Proposed interim dividend	–	–	8,766	–	(8,766)	–
Interim dividend paid	–	–	(8,766)	–	–	(8,766)
Proposed final dividend	–	–	8,766	–	(8,766)	–
At 1 July 2006	69,369	172,750	8,766	–	4,603	255,488
Profit for the year	–	–	–	–	27,481	27,481
Recognition of equity-settled share-based payment	–	–	–	1,777	–	1,777
Issue of shares upon conversion of convertible notes	95,853	–	–	–	–	95,853
Issue of shares upon exercise of share options	616	–	–	(88)	–	528
Final dividend paid	–	–	(8,766)	–	–	(8,766)
Proposed interim dividend	–	–	8,766	–	(8,766)	–
Interim dividend paid	–	–	(8,766)	–	–	(8,766)
Proposed final dividend	–	–	10,406	–	(10,406)	–
At 30 June 2007	**165,838**	**172,750**	**10,406**	**1,689**	**12,912**	**363,595**

Capital reserve of the Company represents the difference between underlying net assets of the subsidiaries which were acquired by the Company and the nominal value of the share capital issued by the Company to acquire the assets under a group reorganisation on 15 August 2003.

25. MAJOR NON-CASH TRANSACTIONS

During the year, the Company converted the CN in full into 162,845,000 ordinary shares of HK$0.01 each, the conversion resulted in the increase of share capital and share premium of HK$1,628,000 and HK$95,853,000 respectively. Details of the conversion are set out in note 22.

26. OPERATING LEASE ARRANGEMENTS

The Group as lessees

	2007	2006
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**2,610**	2,559

At the balance sheet date, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**1,348**	1,428
In the second to fifth year inclusive	**2,345**	2,180
Over five years	**85**	–
	3,778	3,608

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of four years with fixed rentals.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

27. COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure contacted for but not provided in the consolidated financial statements in respect of plant and machinery	**500**	–
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of construction of buildings	**–**	1,902

At 30 June 2007, the Group had commitments for future research costs of HK$263,000 (2006: HK$400,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2009.

28. RELATED PARTY TRANSACTIONS

The remuneration of key management during the year were as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	**4,012**	4,012
Retirement benefit scheme contributions	**30**	28
Share-based payment expense	**348**	–
	4,390	4,040

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

29. POST BALANCE SHEET EVENT

On 21 August 2007, the Company granted share options to employees to entitle the holders to subscribe for shares in the Company at the exercise price of HK$0.572 per share with exercise period from 1 September 2007 to 31 August 2012. The total number of share options granted are 29,200,000 shares.

30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Fuzhou Huaguan *	PRC	RMB70,000,000	–	100	Manufacture and sale of finished woven fabrics
Fuzhou Huasheng *	PRC	US$4,000,000	–	100	Manufacture and sale of finished woven fabrics
Global Art International Limited	BVI	US$1 Ordinary share	–	100	Investment holding
Good Fame Group Limited	BVI	US$1 Ordinary share	–	100	Investment holding
Right Lane International Limited	BVI	US$30,000 Ordinary shares	100	–	Investment holding

* Fuzhou Huaguan and Fuzhou Huasheng are established as wholly foreign-owned enterprises under the relevant PRC law and regulations with an operating period up to 26 July 2010 and 6 December 2054, respectively.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

RESULTS

	Year ended 30 June				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	345,415	420,692	605,815	615,767	**645,575**
Profit for the year	68,732	75,354	94,795	92,346	**86,025**

ASSETS AND LIABILITIES

	As at 30 June				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	235,228	380,310	548,462	633,020	**729,085**
Total liabilities	(74,761)	(75,165)	(170,363)	(172,768)	**(87,698)**
Shareholders' funds	160,467	305,145	378,099	460,252	**641,387**