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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)

Interim Report  
2007

## 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

### Auditors

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

Unit 1407, 14/F., China Merchants Tower  
 Shun Tak Centre  
 168-200 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)

## Report on Review of Interim Financial Information

# Deloitte.

# 德勤

### TO THE BOARD OF DIRECTORS OF ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### Introduction

We have reviewed the interim financial information set out on pages 3 to 15, which comprises the condensed consolidated balance sheet of Art Textile Technology International Company Limited as of 31 December 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

### Deloitte Touche Tohmatsu

*Certified Public Accountants*  
Hong Kong

20 March 2008

The Board of Directors (the "Board") of Art Textile Technology International Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2007 (the "Period"), which were reviewed by the auditors and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

## Condensed Consolidated Income Statement

For the six months ended 31 December 2007

		<b>Six months ended</b>	
		<b>31.12.2007</b>	31.12.2006
		<b>(unaudited)</b>	(unaudited)
	NOTES	<b>HK\$'000</b>	HK\$'000
Turnover		<b>300,870</b>	294,635
Cost of sales		<b><u>(214,418)</u></b>	<u>(210,493)</u>
Gross profit		<b>86,452</b>	84,142
Other income		<b>7,210</b>	3,323
Selling and distribution costs		<b>(8,330)</b>	(8,190)
Administrative expenses		<b>(15,052)</b>	(8,866)
Other expenses		<b>(1,099)</b>	(516)
Loss on changes in fair value of convertible notes		-	(824)
Finance costs	4	<b><u>(308)</u></b>	<u>(553)</u>
Profit before tax		<b>68,873</b>	68,516
Income tax expense	5	<b><u>(19,081)</u></b>	<u>(18,776)</u>
Profit for the period	6	<b><u>49,792</u></b>	<u>49,740</u>
Dividend paid	7	<b><u>10,406</u></b>	<u>8,766</u>
EARNINGS PER SHARE	8		
- Basic, Hong Kong cents		<b><u>4.78</u></b>	<u>5.67</u>
- Diluted, Hong Kong cents		<b><u>4.76</u></b>	<u>4.73</u>

## Condensed Consolidated Balance Sheet

At 31 December 2007

	NOTES	31.12.2007 (unaudited) HK\$'000	30.6.2007 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	165,260	133,164
Prepaid lease payments – non-current portion		14,833	14,105
Deposits for acquisition of plant and equipment		1,914	2,099
		<u>182,007</u>	<u>149,368</u>
<b>CURRENT ASSETS</b>			
Inventories		21,041	25,729
Trade and other receivables	10	64,355	62,529
Prepaid lease payments – current portion		347	327
Pledged bank deposits		4,152	3,473
Bank balances and cash		539,755	487,659
		<u>629,650</u>	<u>579,717</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	64,623	58,031
Tax liabilities		15,659	19,667
Bank borrowings, secured	12	8,511	10,000
		<u>88,793</u>	<u>87,698</u>
<b>NET CURRENT ASSETS</b>			
		<u>540,857</u>	<u>492,019</u>
		<u>722,864</u>	<u>641,387</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	10,406	10,406
Dividend reserve		–	10,406
Share premium and other reserves		712,458	620,575
		<u>722,864</u>	<u>641,387</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2007

	Share capital	Share premium	Merger reserve	Exchange reserve	Statutory reserve fund	Dividend reserve	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2006	8,766	69,369	136	9,791	44,457	8,766	-	318,967	460,252
Exchange difference on translation to presentation currency recognised directly in equity	-	-	-	12,844	-	-	-	-	12,844
Profit for the period	-	-	-	-	-	-	-	49,740	49,740
Total recognised income and expense for the period	-	-	-	12,844	-	-	-	49,740	62,584
Transfer	-	-	-	-	6,179	-	-	(6,179)	-
Recognition of equity-settled share-based payment	-	-	-	-	-	-	1,777	-	1,777
Final dividend paid	-	-	-	-	-	(8,766)	-	-	(8,766)
Proposed interim dividend	-	-	-	-	-	8,766	-	(8,766)	-
At 1 January 2007	8,766	69,369	136	22,635	50,636	8,766	1,777	353,762	515,847
Exchange difference on translation to presentation currency recognised directly in equity	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	36,285	36,285
Total recognised income and expense for the period	-	-	-	-	-	-	-	36,285	36,285
Transfer	-	-	-	-	4,557	-	-	(4,557)	-
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
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	375,084	641,387
Exchange difference on translation to presentation currency recognised directly in equity	-	-	-	36,029	-	-	-	-	36,029
Profit for the period	-	-	-	-	-	-	-	49,792	49,792
Total recognised income and expense for the period	-	-	-	36,029	-	-	-	49,792	85,821
Transfer	-	-	-	-	6,853	-	-	(6,853)	-
Recognition of equity-settled share-based payment	-	-	-	-	-	-	6,062	-	6,062
Final dividend paid	-	-	-	-	-	(10,406)	-	-	(10,406)
<b>At 31 December 2007</b>	<b>10,406</b>	<b>165,838</b>	<b>136</b>	<b>58,664</b>	<b>62,046</b>	<b>-</b>	<b>7,751</b>	<b>418,023</b>	<b>722,864</b>

The statutory reserve fund is a reserve required by the relevant People's Republic of China (the "PRC") laws applicable to the Group'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.

## Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2007

	<b>Six months ended</b>	
	<b>31.12.2007</b>	31.12.2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash from operating activities	<b><u>66,602</u></b>	<u>81,104</u>
Net cash used in investing activities		
Interest received	<b>2,437</b>	2,011
Purchase of property, plant and equipment	<b>(34,988)</b>	(3,742)
Other investing cash (outflow) inflow	<b><u>(241)</u></b>	<u>95</u>
	<b><u>(32,792)</u></b>	<u>(1,636)</u>
Net cash used in financing activities		
New bank borrowings	<b>8,511</b>	5,000
Dividend paid	<b>(10,406)</b>	(8,764)
Repayments of bank borrowings	<b>(10,638)</b>	(4,956)
Other financing cash outflow	<b><u>(308)</u></b>	<u>(1,133)</u>
	<b><u>(12,841)</u></b>	<u>(9,853)</u>
Net increase in cash and cash equivalents	<b>20,969</b>	69,615
Cash and cash equivalents at beginning of the period	<b>487,659</b>	340,735
Effect of foreign exchange rate changes	<b><u>31,127</u></b>	<u>10,167</u>
Cash and cash equivalent at end of the period represented by bank balances and cash	<b><u>539,755</u></b>	<u>420,517</u>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2007

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2007.

In the current interim period, the Group has applied, for the first time, the new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2007.

The adoption of these new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.



## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) – INT 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – INT 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

No analysis on business segment is provided as 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.

## 4. FINANCE COSTS

	<b>Six months ended</b>	
	<b>31.12.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>308</b>	553

## 5. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>31.12.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	<b><u>19,081</u></b>	<u>18,776</u>

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

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan") and Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng") are subsidiaries established in the PRC which are exempted from the EIT for two years starting from their first profit-making year of operations and thereafter are eligible for 50% relief from EIT for the following three years under the income tax law 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 31 December 2009.

The applicable tax rate for Fuzhou Huaguan was 27% for the period ended 31 December 2007.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on 16 March 2007, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. The effect of this change is reflected in the calculation of deferred taxation at 31 December 2007. The above mentioned preferential tax rates should still be effective after the adoption of unified tax rate.

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

## 6. PROFIT FOR THE PERIOD

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

Depreciation of property, plant and equipment  
Interest income  
Release of prepaid lease payments

### Six months ended

<b>31.12.2007</b>	31.12.2006
<b>HK\$'000</b>	HK\$'000

<b>10,993</b>	9,615
<b>(2,542)</b>	(2,011)
<b><u>174</u></b>	<u>163</u>

## 7. DIVIDEND PAID

Dividend recognised as distribution during the period:

Final, paid – HK1.0 cent per share  
(2006: HK1.0 cent per share)

### Six months ended

<b>31.12.2007</b>	31.12.2006
<b>HK\$'000</b>	HK\$'000

<b><u>10,406</u></b>	<u>8,766</u>
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The directors do not recommend the payment of an interim dividend (2006: HK1.0 cent per share).

## 8. 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:

	<b>Six months ended</b>	
	<b>31.12.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Earnings:		
Profit for the period and earnings for the purposes of basic earnings per share	<b>49,792</b>	49,740
Effect of dilutive potential ordinary shares in respect of convertible notes	<u>—</u>	<u>824</u>
Earnings for the purposes of diluted earnings per share	<b><u>49,792</u></b>	<b><u>50,564</u></b>
	<b>'000</b>	'000
Number of shares:		
Number of ordinary shares for the purposes of basic earnings per share	<b>1,040,603</b>	876,558
Effect of dilutive potential ordinary shares in respect of:		
Share options	<b>5,643</b>	96
Convertible notes	<u>—</u>	<u>192,616</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b><u>1,046,246</u></b>	<b><u>1,069,270</u></b>

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$33,306,000 (1.7.2006 to 31.12.2006: HK\$3,742,000) on the construction of its new manufacturing plant in the PRC in order to increase its manufacturing capacity. Details of capital commitments were disclosed in note 15.

## 10. 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:

	<b>31.12.2007</b>	30.6.2007
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>63,129</b>	53,870
61 – 90 days	–	428
Over 90 days	–	6,269
	<hr/>	<hr/>
Trade receivables	<b>63,129</b>	60,567
Other receivables	<b>1,226</b>	1,962
	<hr/>	<hr/>
	<b>64,355</b>	62,529
	<hr/>	<hr/>

## 11. TRADE AND OTHER PAYABLES

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

	<b>31.12.2007</b>	30.6.2007
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>36,881</b>	41,069
61-90 days	<b>1,596</b>	90
Over 90 days	<b>2,968</b>	–
	<hr/>	<hr/>
Trade payables	<b>41,445</b>	41,159
Other payables	<b>23,178</b>	16,872
	<hr/>	<hr/>
	<b>64,623</b>	58,031
	<hr/>	<hr/>

## 12. BANK BORROWINGS, SECURED

During the period, the Group obtained new bank loans amounting to HK\$8,511,000. The loans carried interest at market rates of 7.37% to 7.65% per annum and are repayable within one year. The proceeds were used to finance the acquisition of property, plant and equipment.

## 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value</b> HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 July 2007 and 31 December 2007	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1 July 2007 and 31 December 2007	<u>1,040,602,583</u>	<u>10,406</u>

## 14. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible directors of the Company, employees and other participants of the Group. Details of the share options outstanding during the period are as follows:

	<b>Number of share options</b>
Outstanding at 1 July 2007	58,250,000
Granted during the period	<u>29,200,000</u>
Outstanding at 31 December 2007	<u>87,450,000</u>

## 14. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The options granted during the period entitle the holders to subscribe for shares in the Company at the exercise price of HK\$0.572 per share during the period from 14 September 2007 to 31 August 2012.

The closing price of the Company's shares immediately before 14 September 2007, the date of grant of the options, was HK\$0.640.

The fair value of options determined at the date of grant using the Black-Scholes option pricing model was HK\$6,062,000. The Group recognised an expense of HK\$6,062,000 as share-based payment expense for the six months ended 31 December 2007.

The following assumptions were used to calculate the fair value of share options granted during the period:

Weighted average share price at the date of grant	HK\$0.630
Weighted average exercise price	HK\$0.572
Expected life of options	4.78 years
Expected volatility	39.96%
Expected dividend yield	3.17%
Risk free rates	4.00%

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.

## 15. CAPITAL COMMITMENTS

	<b>31.12.2007</b> <b>HK\$'000</b>	30.6.2007 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of construction of buildings and plant and machinery	<u><b>3,280</b></u>	<u>500</u>

At 31 December 2007, the Group had commitments for future research cost of HK\$199,000 (30 June 2007: HK\$263,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2009.



## 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 includes 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.

As a result of the installation of more water jet rapier looms, certain complicated fabrics for dyeing process were self supplied by the Group. This ensures steadier supply and better quality control of raw fabrics for the dyeing process, which in turn, reduces production costs and shortens the production cycle. In addition, new dyeing auxiliary facilities purchased in the previous financial year enlarges the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

To be in line with the Group's efforts in expanding sales markets, the Group continues to participate in the textile fairs so as to promote and sell its products to local and overseas customers.

#### Turnover

For the Period, the Group recorded a turnover of approximately HK\$300,870,000 (2006: HK\$294,635,000), representing an increase of approximately 2.1% in comparison to the previous financial period. The increase in turnover was attributable to slight increase in productivity as a result of the production during the Period with the new dyeing auxiliary facilities purchased in the previous financial year.

#### Gross Profit

The gross profit margin of the Group slightly increased from approximately 28.6% in the previous period to approximately 28.7% in the current period. The increase was due to the slight increase in productivity due to the commencement of production with the new dyeing auxiliary facilities during the Period.

## Profit for the Period

The Group's profit for the Period was approximately HK\$49,792,000 (2006: HK\$49,740,000), approximately 0.1% more than that in 2006. Net profit margin for the Period was approximately 16.5% (2006: 16.9%) which was maintained at the same level as those of the previous period.

## Expenses

Selling and distribution costs, amounted to approximately HK\$8,330,000 (2006: HK\$8,190,000), representing approximately 2.8% (2006: 2.8%) of turnover for the Period which was maintained at the same level as previous period.

Administrative expenses amounted to approximately HK\$15,052,000 (2006: HK\$8,866,000), representing approximately 5.0% (2006: 3.0%) of the turnover for the Period. Administrative expenses were increased by approximately 69.8% when compared with that of 2006. It was due to the share-based payment expense incurred as a result of the grant of more share options during the Period.

Other expenses amounted to approximately HK\$1,099,000 (2006: HK\$516,000), representing approximately 0.4% (2006: 0.2%) of the turnover for the Period. The increase in amount was due to more resources contributed in the research and development of new fabrics and improvement of existing fabrics.

There was no loss on changes in fair value of the convertible notes (the "CN") for the Period as the CN was fully converted during the year ended 30 June 2007. The loss on changes in fair value of the CN in 2006 was approximately HK\$824,000 representing approximately 0.3% of turnover for that period.

Finance costs, comprises of interest payment of bank borrowings only, amounted to approximately HK\$308,000 (2006: HK\$553,000), representing approximately 0.1% (2006: 0.2%) of the turnover for the Period. The decrease in amount was due to a reduction of bank loan borrowed during the Period.

## 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 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 existing distribution agents and valuable customers and strengthening its present sales and marketing team. Moreover, it keeps participating in the textile fairs held in the PRC and overseas in the future so as to promote its products to worldwide customers.

To maintain the competitiveness of the Group's products in the market, the Group focuses on producing different varieties of fabrics for manufacturing down wear and sports wear due to the increase in market demand of these products. To cope with producing various kinds of fabrics, the Group prolongs to invest approximately HK\$55,000,000 for purchase of a piece of land adjacent to the plant in Changle City, construction of a multi-storey plant on it and setting up a new production line for producing knit fabrics. In addition, new state-of-the-art dyeing auxiliary facilities for producing pure cotton fabrics amounted to approximately HK\$38,000,000, have been purchased and installed in the first quarter of 2008. The test run is contemplated to be held during the second quarter of 2008 as well as the commencement of the production. For this first stage expansion, the dyeing production capacity for pure cotton fabrics is expected to be approximately 2,500 tons to 3,000 tons 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.

## Liquidity and financial resources

As at 31 December 2007, the Group had net current assets and total assets less current liabilities of approximately HK\$540,857,000 (30 June 2007: HK\$492,019,000) and approximately HK\$722,864,000 (30 June 2007: HK\$641,387,000), respectively. The Group maintains a strong financial position by financing its operations with the internally generated resources. As at 31 December 2007, the Group had cash and bank deposits of approximately HK\$543,907,000 (30 June 2007: HK\$491,132,000). The current ratio of the Group was approximately 709.1% (30 June 2007: 661.0%).

Shareholders' fund of the Group as at 31 December 2007 was approximately HK\$722,864,000 (30 June 2007: HK\$641,387,000). As at 31 December 2007, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, were denominated in RMB8,000,000, equivalent to HK\$8,511,000 (30 June 2007: HK\$10,000,000), giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 1.2% (30 June 2007: 1.6%).

The financial health of the Group was strong throughout the Period as indicated by low gearing and high current ratio.

## Financing

As at 31 December 2007, the total banking and loan facilities of the Group amounted to approximately HK\$26,596,000 (30 June 2007: HK\$25,000,000), of which, approximately HK\$12,167,000 (30 June 2007: HK\$15,210,000) 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.

## Capital Structure

For the period ended 31 December 2007, the share capital of the Company comprises ordinary shares only.

## Foreign Exchange Risk and Interest Rate Risk

For the period ended 31 December 2007, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

Though all bank borrowings of the Group were denominated in Renminbi and at floating rate basis, 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 31 December 2007, certain plant and machinery of the Group in aggregate, carrying value of approximately HK\$33,701,000 (30 June 2007: HK\$34,189,000) were pledged to a bank to secure bank facilities granted to the Group; together with the bank deposits of the Group of approximately HK\$4,152,000 (30 June 2007: HK\$3,473,000).

## Staff Policy

The Group had 490 employees altogether in the PRC and Hong Kong as at 31 December 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. Also, 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 do not have any significant contingent liabilities.

## Directors' Interests in Shares and Underlying Shares

At 31 December 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 (the "Model Code"), 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 ( <i>Note</i> )	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 or 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 31 December 2007.

## Arrangement to Purchase Shares or Debentures

Save as disclosed under the section headed "Share options", at no time during the Period 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' 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 Period or at any time during the Period.

## Substantial Shareholders

As at 31 December 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

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate shareholding percentage</b>
Concordia Advisors (Bermuda) Limited	Beneficial owner	179,355,000	17.24%
Veer Palthe Voute NV ( <i>Note</i> )	Beneficial owner	84,395,000	8.11%

*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 31 December 2007.

## Share Options

Particulars of the Company's share option scheme are set out in note 23 to the consolidated financial statements of the Company's 2007 annual report.

As at 21 August 2007, the Company further granted 29,200,000 share options to the Company's employees under the share option scheme. At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 87,450,000, representing approximately 8.4% of the shares of the Company in issue at the date.

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

Directors	Date of grant	Exercise period	Exercise price HK\$	Outstanding	Granted	Exercised	Outstanding
				at 1.7.2007	during the Period	during the Period	at 31.12.2007
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
				<u>8,500,000</u>	<u>-</u>	<u>-</u>	<u>8,500,000</u>
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	31,250,000	-	-	31,250,000
	4.12.2006	2.1.2007 to 1.1.2012	0.45	18,500,000	-	-	18,500,000
	21.8.2007	1.9.2007 to 31.8.2012	0.572	-	29,200,000	-	29,200,000
				<u>49,750,000</u>	<u>29,200,000</u>	<u>-</u>	<u>78,950,000</u>
Granted Total				<u>58,250,000</u>	<u>29,200,000</u>	<u>-</u>	<u>87,450,000</u>



## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Code on Corporate Governance

The Company 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 Company. Consequently, during the Period, the Company complied with the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## Model Code for Securities Transactions by Directors

The Company 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 upon specific enquiry that they have complied with the required standard set out in the Model Code throughout the Period.

## Audit Committee

The Company has an audit committee with terms of reference aligned with the provision of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee comprised three members, all being independent non-executive directors of the Company.

During the Period, the audit committee reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, such as the review of the interim report with the management.

On behalf of the Board

**Chen Jinyan**

*Chairman*

Hong Kong  
20 March 2008