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 2008

Content

Corporate Information

BOARD OF DIRECTORS

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

* 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
Allied Banking Corporation (HK) Ltd.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1407, 14th Floor, 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)

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$674,195,000 (2007: HK$645,575,000) and an increase in profit for the year of HK$91,216,000 (2007: HK$86,025,000).

BUSINESS REVIEW

For the financial year ended 30 June 2008, 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 produces the down wear and sports wear, household products and men's and women's fashions in even productivity. Since the Group targets to enlarge its diversity and complexity of new products, more new state-of-the-art dyeing auxiliary facilities for producing high quality and extensive varieties of products were installed during the year. The Group has then secured considerable orders of those three products. Apart from the weaving production line in the plant in Changle City of Fujian Province, the People's Republic of China (the "PRC") for self-supplying part of raw fabric for dyeing, the Group acquires two more PRC registered companies for spinning yarn in Zhengzhou City of Henan Province, the PRC during the year. These acquisitions are In line with the expansion plan of the Group and represent a good opportunity for the Group to increase its production capacity, enhance its market position and profitability, closely monitor its quality control and production costs and shorten the production cycle. In addition, it is a step towards vertically expanding into a business area which compliments its principal business of sales and manufacturing of textile products.

By implementing the production strategy as set above, the Group is ready to anticipate increase in market demand for its new and existing products and grasp the opportunities arising from the robust development of the textile industry of the PRC. Consequently, all these positive outcomes will gradually be reflected in future 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 " ". 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, cotton, 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 aroused the attention of the public to sports activities; which in turn raised the demand of sports wear. The Group was 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 organise 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, 30 September 2008

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.

The Group ensures steadier supply and better quality control of raw fabrics for the dyeing process by weaving complicated fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, new dyeing auxiliary facilities purchased in recent years 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 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.

Acquisition of Assets through Acquisition of Subsidiaries

On 17 March 2008, the Group entered into two sale and purchase agreements with independent third parties to acquire the entire 100% equity interest in Wide Launch Investment Limited and its subsidiaries, Well Master Enterprise Limited and Zhengzhou Hongye Textile Company Limited, and the entire 100% equity interest in Zhengzhou Huatai Textile Company Limited for cash considerations of RMB110,000,000 (equivalent to approximately HK$122,222,000) and RMB50,000,000 (equivalent to approximately HK$55,556,000) respectively. Details of the above are set out in the circular of the Company dated 30 April 2008.

Turnover

For the financial year ended 30 June 2008, the Group recorded an increase in turnover of approximately HK$674,195,000 (2007: HK$645,575,000), approximately 4.4% more than that in 2007. The increase in turnover was attributable to the currency appreciation of Chinese Yuan during the year.

Gross Profit

The gross profit margin of the Group of approximately 27.2% in the current year decreased slightly as that in the previous year of approximately 28.6%. It was due to slight increase in costs of raw material used for fabric production.

Profit for the Year

The Group's profit for the financial year ended 30 June 2008 was approximately HK$91,216,000 (2007: HK$86,025,000), approximately 6.0% more than that in 2007. Net profit margin for the year ended 30 June 2008 was approximately 13.5% (2007: 13.3%) which was maintained at the same level as that in the previous year.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW (continued)

Expenses

Administrative expenses amounted to approximately HK$27,235,000 (2007: HK$18,946,000), representing approximately 4.0% (2007: 2.9%) of turnover for the year ended 30 June 2008. Administrative expenses increased by approximately 43.8% when compared with that of 2007. It was due to the charge of the grant of share options and professional fees spent for the acquisition carried out during the current year.

Selling and distribution costs amounted to approximately HK$21,015,000 (2007: HK$18,326,000), representing approximately 3.1% (2007: 2.8%) of turnover for the year ended 30 June 2008. Selling and distribution costs increased by 14.7% when compared with that of 2007. It was due to the increase in delivery charges as a result of the surge of petrol prices during the current year.

Other expenses amounted to approximately HK$5,229,000 (2007: HK$3,992,000), representing approximately 0.8% (2007: 0.6%) of turnover for the year ended 30 June 2008. The increase was due to loss on disposal of outdated property, plant and equipment and increase in research and development expenditure incurred during the year.

Finance costs amounted to approximately HK$729,000 (2007: HK$1,097,000), was the interest payments of bank borrowings. The decrease was due to less bank loans drawn down during the year.

No loss on changes in fair value of the convertible notes ("CN") in the current year as all the CN were converted by the holder during the year ended 30 June 2007; which had the loss of approximately HK$15,663,000, representing approximately 2.4% of turnover in previous year.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 30 June 2008.

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 strengthening its present sales and marketing team.

Demand for pure cotton knit fabrics from current customers keeps increasing with the Group's continuous growth in these few years. The Group has satisfied customers' demand only by purchasing yarn for weaving into knit fabrics from external suppliers and dyed them into finished products. However, the acquisitions in Zhengzhou city of Henan province, the PRC would align with the Group's future development plan because the main products of two PRC registered companies would be yarn for weaving into pure cotton knit fabrics, which in turn, would further enable the vertical integration of the Group. Moreover, an international standard dyeing production line has been installed at the plant in Changle City for further exploring the market of pure cotton knit fabrics. Consequently, the Group would be able to integrate its production process vertically, from yarn spinning, raw fabric weaving to dyeing. The construction of the plant would be completed in October 2008 and hence the first production line would be installed and trial run afterwards. Its production of yarn would be commenced at the end of November 2008. Three other production lines would be installed and trial run during the period from January to October 2009 and the yarn production would be commenced accordingly once their installation and trial run are completely satisfactorily. The full production capacity of these four production lines is expected to be approximately 15,000 tons to 17,000 tons per annum.

Management Discussion and Analysis

FUTURE PLANS AND PROSPECTS (continued)

To cope with producing various kinds of fabrics, the Group plans 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, setting up a new production line for weaving knit fabrics. In addition, new state-of-the-art dyeing auxiliary facilities for dyeing pure cotton fabrics amounted to approximately HK$38,000,000, have been purchased and installed during the year. Its commencement of production is expected in November 2008. After this expansion, the dyeing production capacity for pure cotton fabrics will 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 30 June 2008, the Group had net current assets and total assets less current liabilities of approximately HK$238,387,000 (2007: HK$492,019,000) and HK$821,335,000 (2007: HK$641,387,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources. As at 30 June 2008, the Group had cash and bank deposits of approximately HK$508,877,000 (2007: HK$491,132,000). The current ratio of the Group was approximately 162.2% (2007: 661.0%).

Shareholders' fund of the Group as at 30 June 2008 was approximately HK$796,301,000 (2007: HK$641,387,000). As at 30 June 2008, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, denominated in RMB31,119,000, were equivalent to HK$34,577,000 (2007: HK$10,000,000); and obligations under finance leases for plant and machinery, denominated in EUR3,097,000, were equivalent to HK$32,831,000 (2007: Nil), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 8.5% (2007: 1.6%).

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 2008, the total banking facilities of the Group amounted to about HK$100,000,000 (2007: HK$25,000,000), of which, HK$41,303,000 (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

As at 30 June 2008, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

Though there was a currency appreciation of Renminbi throughout the year ended 30 June 2008, 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.

Management Discussion and Analysis

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK (continued)

The Board is of the opinion that the Group is not subject to any significant interest rate risk even though part of the bank borrowings of the Group were denominated in Renminbi and at floating rate basis.

CHARGE ON GROUP'S ASSETS

As at 30 June 2008, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$79,721,000 (2007: Nil) and approximately HK$32,121,000 (2007: HK$34,189,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$4,484,000 (2007: HK$3,473,000).

As at 30 June 2008, the carrying value of the Group's plant and machinery held under finance leases was HK$49,298,000 (2007: Nil).

As at 30 June 2008, certain leasehold land with carrying value of HK$103,166,000 (2007: Nil) was pledged to a contractor to secure the payments of certain construction in progress payable.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$438,809,000 (2007: HK$7,539,000) in property, plant and equipment and leasehold land, of which 21.9% (2007: 69.0%) was used for purchase of plant and machinery, 52.0% (2007: 31.0%) for construction of new plant, office building, dormitories and warehouse in Zhengzhou, 25.1% (2007: Nil) for purchase of a piece of leasehold land in Zhengzhou and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2008, the Group had capital commitments of approximately HK$163,361,000 (2007: HK$500,000) in property, plant and equipment. The capital commitments in previous year were funded by internally generated resources.

STAFF POLICY

The Group had 526 employees altogether in the PRC and Hong Kong as at 30 June 2008. 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 39, is the Chairman of the Company and is responsible for the Group's operation and product development. Mr. Chen has over 17 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 37, is a Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 14 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Kin Chung (勞健忠), aged 47, 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 18 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 38, 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 73, 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 45 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 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2008 are set out in note 33 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2008 are set out in the consolidated income statement on page 23.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2008 (2007: HK1.0 cent per share).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 30 June 2008 comprised the dividend reserve and retained profits of HK$19,039,000 (2007: HK$23,318,000) in aggregate.

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 (resigned on 10 July 2008)

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. Chen Dong and Lo Kin Chung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Dong was re-appointed by the board of directors on 1 September 2008 to continue to act as an executive director of the Company for a term of one year after the expiration of his service agreement on 31 August 2008. The service agreement for Mr. Chen Jinyan expired on 31 August 2008 and he was re-appointed by the board of directors on 1 September 2008 to continue to act as an executive director of the Company for a term of two years. Both of the above service agreements can be terminated by either party by giving three months' prior written notice.

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.

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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2008, 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 HK$0.01 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. On 8 August 2008, 249,740,000 shares representing approximately 24% shareholding held by Talent Crown were transferred to Fully Chain Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and both are executive directors of the Company.

(b) *Share options*

Name of director	Capacity	Number of share 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 2008.

Directors' Report

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 benefits by means of acquisition of shares in, or debentures of, 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 year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, 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 HK$0.01 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	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 30 June 2008.

Directors' Report

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 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 HK$	Outstanding at 1.7.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30.6.2008
Directors								
Mr. Chen Jinyan	23.12.2003	23.12.2003 to 22.12.2013	0.612	4,000,000	–	–	–	4,000,000
	11.12.2006	2.1.2007 to 1.1.2012	0.45	4,500,000	–	–	–	4,500,000
				8,500,000	–	–	–	8,500,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	31,250,000	–	–	(2,000,000)	29,250,000
	11.12.2006	2.1.2007 to 1.1.2012	0.45	18,500,000	–	–	–	18,500,000
	14.9.2007	14.9.2007 to 31.8.2012	0.572	–	29,200,000	–	–	29,200,000
				49,750,000	29,200,000	–	(2,000,000)	76,950,000
Granted Total				58,250,000	29,200,000	–	(2,000,000)	85,450,000

On 10 July 2008, the Company granted share options to a director and employees to entitle the holders to subscribe for shares in the Company at the exercise price of HK$0.358 per share with exercise period from 1 August 2008 to 31 July 2018. The total number of such share options granted is 18,600,000 shares.

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 considers that 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 less than 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 43% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 11% of the Group's total purchases.

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

The 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 2008.

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
30 September 2008

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 2008, 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 2008.

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) (resigned on 10 July 2008)*
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.

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 2008, 8 board meetings were held and the attendance of all Directors at the Board meetings is as follows:

Name of Directors	**Attendance**
Mr. Chen Jinyan	8/8
Mr. Chen Dong	8/8
Ms. Kong Ping	7/7
Mr. Lo Kin Chung	7/7
Mr. Huang Yongfeng	7/7
Mr. Yu Zhong Ming	7/7

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

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

- refreshment of the share option scheme limit of the Company;
- approval of the acquisition and preparation of relevant circular;
- approval of the interim review fee for the period ended 31 December 2007 and the annual audit fee for the year ended 30 June 2008;
- approval of the grant of share options during the financial year ended 30 June 2008;
- declaration, recommendation and payment of interim and final dividend;
- approval for publication of interim and annual results announcements; and
- approval of the internal control review report of the Company.

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.

The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. An external professional party conducted review of the effectiveness of the Group's system of internal control. The Audit Committee reviewed the findings and opinion of the external professional party on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2008, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

Report on Corporate Governance Practices

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.

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 the 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 2008, 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 2008 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.

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 2007 and the interim review for the period ended 31 December 2007 before the Board meeting.

Report on Corporate Governance Practices

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 2008, 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 2008:

- reviewed the remuneration policy for the financial year ended 30 June 2008;
- 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 2008 under Hong Kong Financial Reporting Standards.

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.

NOMINATION COMMITTEE (continued)

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 2008, 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 two Independent Non-executive Directors, Mr. Huang Yongfeng and Mr. Yu Zhong Ming, retiring by rotation at the annual general meeting held in November 2007, 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 Independent Non-executive Directors 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.

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 2008, the auditor's remuneration was HK$910,000.

(b) Non-audit service

The fee charged by DTT of interim review for the period ended 31 December 2007 was HK$176,000. 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 2007, 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 2007 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 23 to 57, which comprise the consolidated balance sheet as at 30 June 2008 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 2008 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
30 September 2008

Consolidated Income Statement

For the year ended 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover		**674,195**	645,575
Cost of sales		**(490,708)**	(460,906)
Gross profit		**183,487**	184,669
Other income	8	**4,763**	5,370
Administrative expenses		**(27,235)**	(18,946)
Selling and distribution costs		**(21,015)**	(18,326)
Other expenses		**(5,229)**	(3,992)
Finance costs	9	**(729)**	(1,097)
Loss on changes in fair value of convertible notes		**–**	(15,663)
Profit before taxation	10	**134,042**	132,015
Income tax expense	11	**(42,826)**	(45,990)
Profit for the year		**91,216**	86,025
Dividends paid	13	**10,406**	17,532
Earnings per share	14		
Basic, in Hong Kong cents		**8.77**	9.73
Diluted, in Hong Kong cents		**8.74**	9.71

Consolidated Balance Sheet

At 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**454,858**	133,164
Prepaid lease payments – non-current portion	16	**116,344**	14,105
Deposits for acquisition of plant and equipment		**11,746**	2,099
		582,948	149,368
CURRENT ASSETS			
Inventories	17	**36,210**	25,729
Trade and other receivables	18	**74,015**	62,529
Prepaid lease payments – current portion	16	**2,494**	327
Pledged bank deposits	19	**4,484**	3,473
Bank balances and cash	20	**504,393**	487,659
		621,596	579,717
CURRENT LIABILITIES			
Trade and other payables	21	**322,541**	58,031
Tax liabilities		**15,539**	19,667
Secured bank borrowings	22	**34,577**	10,000
Obligations under finance leases – due within one year	23	**10,552**	–
		383,209	87,698
NET CURRENT ASSETS		**238,387**	492,019
		821,335	641,387
CAPITAL AND RESERVES			
Share capital	25	**10,406**	10,406
Dividend reserve		**–**	10,406
Share premium and other reserves		**785,895**	620,575
		796,301	641,387
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	23	**22,279**	–
Deferred tax liabilities	24	**2,755**	–
		25,034	–
		821,335	641,387

The consolidated financial statements on pages 23 to 57 were approved and authorised for issue by the Board of Directors on 30 September 2008 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 2008

	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 2006	8,766	69,369	136	9,791	44,457	8,766	–	318,967	460,252
Exchange difference arising on translation	–	–	–	12,844	–	–	–	–	12,844
Profit for the year	–	–	–	–	–	–	–	86,025	86,025
Total recognised income 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
2006 Final dividend paid	–	–	–	–	–	(8,766)	–	–	(8,766)
2007 Interim dividend declared	–	–	–	–	–	–	–	(8,766)	(8,766)
Proposed 2007 final dividend	–	–	–	–	–	10,406	–	(10,406)	–
At 1 July 2007	10,406	165,838	136	22,635	55,193	10,406	1,689	375,084	641,387
Exchange difference arising on translation	–	–	–	68,042	–	–	–	–	68,042
Profit for the year	–	–	–	–	–	–	–	91,216	91,216
Total recognised income for the year	–	–	–	68,042	–	–	–	91,216	159,258
Transfer	–	–	–	–	10,530	–	–	(10,530)	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	6,062	–	6,062
2007 Final dividend paid	–	–	–	–	–	(10,406)	–	–	(10,406)
At 30 June 2008	10,406	165,838	136	90,677	65,723	–	7,751	455,770	796,301

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 reserve 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 2008

	NOTE	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**134,042**	132,015
Adjustments for:			
Allowance for (write-back of) bad and doubtful debts		**159**	(9)
Reversal of write-down of inventories		**–**	(34)
Depreciation of property, plant and equipment		**27,802**	19,732
Loss on disposal of property, plant and equipment		**591**	2,565
Release of prepaid lease payments		**363**	327
Interest expense		**729**	1,097
Interest income		**(4,762)**	(4,782)
Share-based payment expense		**6,062**	1,777
Loss on changes in fair value of convertible notes		**–**	15,663
Operating cash flows before movements in working capital		**164,986**	168,351
(Increase) decrease in inventories		**(7,622)**	3,313
Decrease (increase) in trade and other receivables		**11,808**	(1,617)
Increase (decrease) in trade and other payables		**5,274**	(235)
Cash generated from operations		**174,446**	169,812
Income tax paid		**(46,384)**	(43,948)
NET CASH FROM OPERATING ACTIVITIES		**128,062**	125,864
INVESTING ACTIVITIES			
Acquisition of assets through acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	**(129,567)**	–
Purchases of property, plant and equipment		**(48,391)**	(7,539)
(Increase) decrease in pledged bank deposits		**(625)**	39,977
Interest received		**4,762**	4,782
Proceeds on disposal of property, plant and equipment		**337**	1,590
Deposits for acquisition of plant and equipment		**–**	(2,099)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(173,484)**	36,711
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(14,688)**	(21,556)
Dividends paid		**(10,406)**	(17,532)
Interest paid on bank borrowings		**(729)**	(1,097)
New bank borrowings raised		**38,155**	15,000
Payment of interest on convertible notes		**–**	(1,172)
Proceeds on issue of shares upon exercise of share options		**–**	540
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**12,332**	(25,817)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(33,090)**	136,758
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**49,824**	10,166
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**487,659**	340,735
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**504,393**	487,659

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

1. GENERAL

The Company is 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 private 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 ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD 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 33.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on or after 1 July 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material effect on how the results and the financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the HKFRSs 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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.

Revenue from sales of goods is recognised when the goods are delivered and title has 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 including buildings held for use in the production or supply of goods or services, or for administrative purposes (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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment *(continued)*

Construction in progress includes 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 losses. 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 property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 in 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 and development 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.

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. 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 that entity (foreign currencies) are recorded in its respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange 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 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than HKD are translated into the presentation currency of the Group 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 and included in finance costs in the consolidated income statement 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.

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 profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation *(continued)*

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.

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 classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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 and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance accounts. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables, secured bank borrowings and obligations under finance leases) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments *(continued)*

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 and receivable 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 financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded 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 is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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/recognised as an expense in full at grant date when the share options granted vest immediately, 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 during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to the 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 the share option reserve will be transferred to retained profits.

Impairment losses

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2008, the carrying amount of trade receivables is HK$56,135,000 (net of allowance for doubtful debts of HK$509,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 22 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

In addition to capital risk management, there is a concentration risk on location of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its net assets is related to the economic conditions in the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different municipalities and provinces with different risk profiles.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables:		
Trade and other receivables	**73,046**	60,567
Pledged bank deposits	**4,484**	3,473
Bank balances and cash	**504,393**	487,659
	581,923	551,699
Financial liabilities		
Other financial liabilities at amortised cost:		
Trade and other payables	**307,511**	44,419
Secured bank borrowings	**34,577**	10,000
Obligations under finance leases	**32,831**	–
	374,919	54,419

(b) Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, secured bank borrowings and obligations under finance lease. Details of the 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall policies remain unchanged from prior years.

Market risks

(i) Currency risk

Certain trade receivables, bank balances and obligations under finance leases are denominated in United States dollars ("USD"); Euro dollars ("EUR") and HKD, which are currencies other than functional currency of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and polices *(continued)*

***Market risks** (continued)*

(i) Currency risk (continued)

Sensitivity analysis

The group entities are mainly exposed to the fluctuation of USD, EUR and HKD against RMB.

The following table details the group entities' sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates.

The sensitivity analysis includes USD and HKD denominated trade and other receivables and bank balances, as appropriate, and the EUR denominated obligations under finance leases. A positive or negative number below indicates an increase or a decrease in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	HKD Impact (note i)		**USD Impact** (note i)		**EUR Impact** (note ii)	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit or loss	**(166)**	(399)	**(294)**	(2,156)	**1,637**	–

(i) This is mainly attributable to the exposure on USD or HKD trade and other receivables and bank balances, as appropriate, at year end in the Group.

(ii) This is mainly attributable to the exposure outstanding on EUR obligations under finance leases at year end in the Group.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank borrowings (see note 22 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB denominated bank borrowings.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank balances, bank borrowings and obligations under finance leases, as set out in notes 19, 20, 22 and 23 respectively.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group maintains a mixture of floating-rate and fixed-rate borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

6. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and polices *(continued)*

Market risks *(continued)*

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings at the balance sheet date carried at floating market interest rate. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2008 would decrease/increase by HK$44,000 (2007: decrease/increase by HK$50,000).

(iii) Other price risk

The Group is not exposed to significant other price risk. Management monitors other price risks and will consider hedging significant price exposure should the need arise.

Credit risk

As at 30 June 2008, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the 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 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 Group has a number of counterparties and customers. However, the Group's credit risk is concentrated on certain major customers. At 30 June 2008, the five largest receivable balances accounted for approximately 43% of the Group's total receivable balances. However, taking into account the strong financial background and good creditability of these customers, the management considers that there is no significant uncovered credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Group has net current assets of HK$238,387,000 as at 30 June 2008 (2007: HK$492,019,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and polices *(continued)*

Liquidity risk *(continued)*

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 30.6.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008							
Non-derivative financial liabilities							
Trade and other payables		50,193	77,368	179,950	–	307,511	307,511
Bank borrowings							
– fixed-rate	9.51	–	2,391	24,998	–	27,389	25,688
– floating-rate	7.48	–	5,625	3,520	–	9,145	8,889
Obligations under finance lease	12.47	1,517	2,276	10,240	25,034	39,067	32,831
		51,710	87,660	218,708	25,034	383,112	374,919

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 30.6.2007
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables		37,827	3,670	2,922	–	44,419	44,419
Bank borrowings							
– floating-rate	7.00	–	10,117	–	–	10,117	10,000
		37,827	13,787	2,922	–	54,536	54,419

(c) Fair value

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

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

7. 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 fabrics. In addition, no geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the customers in the PRC and the assets are substantially located in the PRC.

8. OTHER INCOME

	2008 **HK$'000**	2007 HK$'000
Bank interest income	**4,762**	4,782
Exchange gain, net	**–**	427
Others	**1**	161
	4,763	5,370

9. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest on bank borrowings wholly repayable within five years	**729**	1,097

10. PROFIT BEFORE TAXATION

	2008 **HK$'000**	2007 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Staff costs		
– directors' emoluments (note 12)	**4,048**	4,390
– other staff's salaries and benefits	**12,590**	12,570
– other staff's retirement benefit scheme contributions	**1,732**	1,501
– other staff's share-based payment expense	**6,062**	1,429
	24,432	19,890
Allowance for (write-back of) bad and doubtful debts	**159**	(9)
Auditor's remuneration	**910**	820
Reversal of write-down of inventories	**–**	(34)
Depreciation of property, plant and equipment	**27,802**	19,732
Exchange loss, net	**1,514**	–
Loss on disposal of property, plant and equipment	**591**	2,565
Release of prepaid lease payments	**363**	327

11. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
The charge comprises:		
PRC Foreign Enterprise Income Tax ("FEIT"):		
Current year	**40,071**	45,990
Deferred tax (note 24)	**2,755**	–
Total	**42,826**	45,990

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.

FEIT is provided on the estimated assessable income of the year calculated in accordance with the relevant regulations of the PRC.

Adoption of Law of the PRC on Enterprise Income Tax

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations changed the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for FEIT is still applicable until the end of the five-year transitional period under the New Law.

For entities which are still entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

As set out in note 24, deferred taxation of HK$2,755,000 has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries starting from 1 January 2008 attributable to the Group under the New Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

11. INCOME TAX EXPENSE (continued)

Tax concessions and holidays entitled by the Group

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 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 exemption period of Fuzhou Huasheng expired on 31 December 2006 and its applicable preferential tax rate, which is 50% relief for the reduced tax rate for the following three years, was 12.5% for the period from 1 January 2007 to 31 December 2009.

The applicable tax rate for Fuzhou Huaguan was changed from 27% to 25% from 1 January 2008 onwards.

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

	2008 HK$'000	2007 HK$'000
Profit before taxation	**134,042**	132,015
Tax at the income tax rate of 25% (2007: 27%)	**33,511**	35,644
Tax effect of expenses not deductible for tax purpose	**5,358**	11,808
Tax effect of income not taxable for tax purpose	**(406)**	(1,462)
Tax effect of income subject to tax rates prior to the adoption of the New Law	**1,608**	–
Deferred tax on undistributed earnings of PRC's subsidiaries derived after 31 December 2007	**2,755**	–
Tax charge for the year	**42,826**	45,990

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the six (2007: six) directors were as follows:

(a) Directors' emoluments

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

2008

	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**	**12**	**–**	**1,812**
Mr. Chen Jinyan	**–**	**1,440**	**12**	**–**	**1,452**
Ms. Kong Ping (Note)	**–**	**600**	**12**	**–**	**612**
Mr. Huang Yongfeng	**36**	**–**	**–**	**–**	**36**
Mr. Yu Zhong Ming	**36**	**–**	**–**	**–**	**36**
Mr. Lo Kin Chung	**100**	**–**	**–**	**–**	**100**
	172	**3,840**	**36**	**–**	**4,048**

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments *(continued)*

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 (Note)	–	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

Note: Ms. Kong Ping resigned as an executive director of the Company on 10 July 2008.

No directors waived any emoluments for both years.

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2008 included three (2007: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2007: two) individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**1,226**	1,103
Retirement benefit scheme contributions	**22**	19
Share-based payment expense	**789**	661
	2,037	1,783

Their emoluments were within the following bands:

	2008 Number of employees	2007 Number of employees
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	–
	2	2

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS PAID

	2008 HK$'000	2007 HK$'000
Dividends recognised as distribution during the year:		
2008 interim dividend – Nil		
(2007: 2007 interim dividend of HK1.0 cent per share)	–	8,766
2007 final dividend – HK1.0 cent per share		
(2007: 2006 final dividend of HK1.0 cent per share)	10,406	8,766
	10,406	17,532

The directors do not recommend the payment of a final dividend for the year ended 30 June 2008 (2007: HK1.0 cent per share).

14. 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:

	2008 HK$'000	2007 HK$'000
Earnings:		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	91,216	86,025

	2008 '000	2007 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,040,602	884,193
Effect of dilutive potential ordinary shares in respect of share options	3,587	1,815
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,044,189	886,008

The computation of diluted earnings per share for both years does not assume the exercise of the Company's outstanding share options granted on 23 December 2003 and 21 August 2007 as set out in note 26, as the exercise prices of those options are higher than the average market prices for the Company's shares for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 July 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
Exchange realignment	11,842	10,792	191	412	–	23,237
Additions	–	3,347	1,140	2,486	43,750	50,723
Arising from acquisition of assets through acquisition of subsidiaries	–	13,296	–	773	270,851	284,920
Transfer	–	10,324	–	–	(10,324)	–
Disposals	–	(1,592)	(1,105)	(45)	–	(2,742)
At 30 June 2008	**118,349**	**133,296**	**2,263**	**7,556**	**304,277**	**565,741**
DEPRECIATION						
At 1 July 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
Exchange realignment	4,217	3,735	140	364	–	8,456
Provided during the year	11,176	15,494	393	739	–	27,802
Eliminated on disposals	–	(890)	(889)	(35)	–	(1,814)
At 30 June 2008	**53,342**	**51,960**	**1,111**	**4,470**	**–**	**110,883**
CARRYING VALUES						
At 30 June 2008	**65,007**	**81,336**	**1,152**	**3,086**	**304,277**	**454,858**
At 30 June 2007	68,558	63,508	570	528	–	133,164

15. PROPERTY, PLANT AND EQUIPMENT (continued)

At 30 June 2008, certain buildings and plant and machinery of the Group with aggregate carrying values of HK$65,007,000 (2007: Nil) and HK$32,121,000 (2007: HK$34,189,000), respectively, were pledged to banks 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%

The Group's buildings are erected on leasehold interest in land held under medium-term leases in the PRC.

At 30 June 2008, the carrying value of the Group's plant and machinery held under finance leases was HK$49,298,000 (2007: Nil).

16. PREPAID LEASE PAYMENTS

	2008 **HK$'000**	2007 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold interest in land under medium-term leases in the PRC	**118,838**	14,432
Analysed for reporting purposes as:		
Non-current assets	**116,344**	14,105
Current assets	**2,494**	327
	118,838	14,432

At 30 June 2008, certain leasehold land with carrying values of HK$14,714,000 (2007: Nil) and HK$103,166,000 (2007: Nil) were pledged to a bank to secure banking facilities granted to the Group and to a contractor to secure the payments of certain construction in progress payable, respectively.

17. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**5,502**	3,918
Work in progress	**21,150**	15,102
Finished goods	**9,558**	6,709
	36,210	25,729

18. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**56,644**	61,178
Less: Allowance for doubtful debts	**(509)**	(611)
	56,135	60,567
Other receivables	**17,880**	1,962
	74,015	62,529

In the current year, HK$3,900,000 (2007: HK$4,847,000) trade receivables of the Group are denominated in USD.

The Group allows average credit period ranging from 45 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2008 HK$'000	2007 HK$'000
Trade debtors		
0 – 60 days	**47,197**	53,870
61 – 90 days	**571**	428
Over 90 days	**8,367**	6,269
	56,135	60,567

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 85% of the trade receivables that are neither past due nor impaired have good credit rating.

18. TRADE AND OTHER RECEIVABLES (continued)

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$8,367,000 (2007: HK$6,269,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is between 91 to 120 days (2007: between 91 to 120 days).

The entire balance of the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$509,000 (2007: HK$611,000) which had been in severe financial difficulties. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts are as follows:

	2008 **HK$'000**	2007 HK$'000
Balance at beginning of the year	**611**	602
Amounts written off as uncollectible	**(329)**	–
Impairment loss recognised on receivables	**159**	–
Impairment loss reversed	**–**	(9)
Exchange realignment	**68**	18
Balance at end of the year	**509**	611

The Group would provide fully for all receivables over 180 days because historical experience is that such receivables that are past due beyond 180 days are generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss is considered necessary.

19. PLEDGED BANK DEPOSITS

The pledged bank deposits are pledged to a bank to secure credit facilities granted to the Group. The deposits that have been pledged represent deposits 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 fixed-interest rates ranging from 0.72% to 0.81% (2007: 0.72%) per annum and denominated in the functional currency of the relevant group entities.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry fixed-interest rates ranging from 0.72% to 1.5% (2007: 0.72% to 3.0%) per annum and have original maturity of three months or less.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	USD HK$'000	**HKD** HK$'000
At 30 June 2008	1,995	3,329
At 30 June 2007	38,278	7,973

21. TRADE AND OTHER PAYABLES

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

	2008 **HK$'000**	2007 HK$'000
0 – 60 days	**44,226**	41,069
61 – 90 days	**–**	90
Trade payables	**44,226**	41,159
Other payables	**278,315**	16,872
	322,541	58,031

Included in other payables at 30 June 2008 are construction in progress payable to contractors of HK$132,690,000, consideration payable for the acquisition of assets through acquisition of subsidiaries of HK$35,556,000 and amounts due to the former shareholders of the subsidiaries acquired during the year of HK$41,565,000. Details of these are set out in note 27.

22. SECURED BANK BORROWINGS

The Group's bank borrowings are denominated in the functional currency of the relevant group entities and are wholly repayable within one year and secured by the following:

(i) certain buildings and plant and machinery as set out in note 15;

(ii) certain leasehold interest in land as set out in note 16; and

(iii) pledged bank deposits as set out in note 19.

The exposure of the Group's fixed-rate borrowings and floating rate borrowings are as follows:

	Fixed-rate borrowings HK$'000	**Floating rate borrowings** HK$'000	**Total** HK$'000
2008	**25,688**	**8,889**	**34,577**
2007	–	10,000	10,000

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

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	**7.556% to 9.711%**	N/A
Floating-rate borrowings	**7.37% to 7.65%**	5.17% to 7.00%

23. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is three years (2007: Nil) and the average effective interest rate is 12.47% (2007: Nil) per annum. Interest rates underlying all obligations under finance leases were fixed at the contract rate of 6.04% (2007: Nil) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**14,033**	–	**10,552**	–
More than one year but not more than two years	**13,653**	–	**11,520**	–
More than two years but not more than five years	**11,381**	–	**10,759**	–
	39,067	–	**32,831**	–
Less: Future finance charges	**(6,236)**	–	**N/A**	N/A
Present value of lease obligations	**32,831**	–	**32,831**	–
Less: Amount due within one year and shown under current liabilities			**(10,552)**	–
Amount due after one year			**22,279**	–

The Group's obligations under finance leases are secured by the lessor's charges over the leased assets and are denominated in EUR.

24. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised by the Group and movement thereon during the current and prior reporting periods.

	Undistributed earnings of PRC's subsidiaries
	HK$'000
At 1 July 2006 and 30 June 2007	–
Charge to consolidated income statement	2,755
At 30 June 2008	2,755

25. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 July 2006, 30 June 2007 and 30 June 2008	2,000,000,000	20,000
Issued and fully paid:		
At 1 July 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 and 30 June 2008	**1,040,602,583**	**10,406**

Notes:

(a) 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, an independent investor. On 14 June 2007, full amount of the CN issued by the Company were converted into 162,845,000 ordinary shares of HK$0.01 each of the Company.

(b) During the year ended 30 June 2007, 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 ended 30 June 2007 rank pari passu with the then existing shares in all respects.

26. 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 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.

As at the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 104,050,000, representing approximately 10% of the issued share capital of the Company as at the date of this report. 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.

26. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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 which shall not be lower than the nominal value of the shares of the Company and shall be at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the grant.

On 11 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.

On 14 September 2007, the Company granted share options 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 14 September 2007 to 31 August 2012.

The closing price of the Company's shares immediately before 11 December 2006 and 14 September 2007, the dates of grant of the options, were HK$0.45 and HK$0.63, respectively.

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

Category	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	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30.6.2008
			HK$									
Directors	23.12.2003	23.12.2003 to 22.12.2013	0.612	4,000,000	–	–	–	4,000,000	–	–	–	4,000,000
	11.12.2006	2.1.2007 to 1.1.2012	0.450	–	4,500,000	–	–	4,500,000	–	–	–	4,500,000
				4,000,000	4,500,000	–	–	8,500,000	–	–	–	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	–	–	(2,000,000)	29,250,000
	11.12.2006	2.1.2007 to 1.1.2012	0.450	–	19,700,000	(1,200,000)	–	18,500,000	–	–	–	18,500,000
	14.9.2007	14.9.2007 to 31.8.2012	0.572	–	–	–	–	–	29,200,000	–	–	29,200,000
				34,250,000	19,700,000	(1,200,000)	(3,000,000)	49,750,000	29,200,000	–	(2,000,000)	76,950,000
Granted Total				38,250,000	24,200,000	(1,200,000)	(3,000,000)	58,250,000	29,200,000	–	(2,000,000)	85,450,000
Exercisable at year end								58,250,000				85,450,000

26. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The fair value of the options granted during the year is HK$6,062,000 (2007: HK$1,777,000). The fair value of the share options granted during the current and prior years were calculated using the Black-Scholes Model (the "Model"). The inputs into the Model and the estimated fair values of the share options granted during the current and prior years were summarised as follows:

	14.9.2007	11.12.2006
Weighted average share price	**HK$0.630**	HK$0.455
Exercise price	**HK$0.572**	HK$0.450
Expected life of options	**4.78 years**	5 years
Expected volatility	**39.96%**	27.00%
Expected dividend yield	**3.17%**	5.50%
Risk free rates	**4.00%**	3.79%
Fair value per share option	**HK$0.208**	HK$0.073

The Model is one of the commonly used models to estimate the fair value of the share 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.

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 and behavioural considerations.

The Group recognised the share-based payment expense of HK$6,062,000 for the year ended 30 June 2008 (2007: HK$1,777,000) in relation to share options granted by the Company.

27. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 17 March 2008, the Group entered into two sale and purchase agreements (the "Agreements") with independent third parties to acquire the entire 100% equity interest in Wide Launch Investment Limited and its subsidiaries, Well Master Enterprise Limited and Zhengzhou Hongye Textile Company Limited, (collectively referred to as "Wide Launch Group") and the entire 100% equity interest in Zhengzhou Huatai Textile Company Limited ("Zhengzhou Huatai") for cash considerations of RMB110,000,000 (equivalent to approximately HK$122,222,000) and RMB50,000,000 (equivalent to approximately HK$55,556,000) respectively.

Details of the above are set out in the circular of the Company dated 30 April 2008.

These transactions have been completed on 27 June 2008 and accounted for as acquisition of assets and liabilities as the subsidiaries acquired are not business.

27. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (continued)

The net assets acquired in the transactions are as follows:

	Wide Launch Group HK$'000	Zhengzhou Huatai HK$'000	Total HK$'000
Net assets acquired:			
Property, plant and equipment	234,918	50,002	284,920
Prepaid lease payments	103,166	–	103,166
Deposits for acquisition of plant and equipment	6,151	5,595	11,746
Other receivables	10,541	32,524	43,065
Bank balances and cash	834	11,821	12,655
Other payables	(233,388)	(11,555)	(244,943)
Obligations under finance leases	–	(32,831)	(32,831)
	122,222	55,556	177,778
Total considerations satisfied by:			
Cash			142,222
Consideration payable (included in other payables)			35,556
			177,778
Net cash outflow arising on acquisition:			
Cash consideration paid			(142,222)
Bank balances and cash acquired			12,655
			(129,567)

The consideration payable of approximately HK$35,556,000 will be paid within one year from the date of the Agreements.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2008

28. BALANCE SHEET OF THE COMPANY

	2008 HK$'000	2007 HK$'000
Total Assets	**415,019**	395,269
Total Liabilities	**19,049**	21,268
	395,970	374,001
CAPITAL AND RESERVES		
Share capital	**10,406**	10,406
Share premium and other reserves (Note)	**385,564**	363,595
	395,970	374,001

Note:

	Share premium HK$'000	**Capital reserve** HK$'000	**Exchange reserve** HK$'000	**Dividend reserve** HK$'000	**Share option reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
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
2006 Final dividend paid	–	–	–	(8,766)	–	–	(8,766)
2007 Interim dividend declared	–	–	–	–	–	(8,766)	(8,766)
Proposed 2007 final dividend	–	–	–	10,406	–	(10,406)	–
At 1 July 2007	165,838	172,750	–	10,406	1,689	12,912	363,595
Exchange difference arising on translation of assets and liabilities to presentation currency recognised directly in equity	–	–	20,186	–	–	–	20,186
Profit for the year	–	–	–	–	–	6,127	6,127
Recognition of equity-settled share-based payment	–	–	–	–	6,062	–	6,062
2007 Final dividend paid	–	–	–	(10,406)	–	–	(10,406)
At 30 June 2008	**165,838**	**172,750**	**20,186**	**–**	**7,751**	**19,039**	**385,564**

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.

29. OPERATING LEASE COMMITMENTS

The Group as lessee

	2008 **HK$'000**	2007 HK$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**2,893**	2,610

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:

	2008 **HK$'000**	2007 HK$'000
Within one year	**2,720**	1,348
In the second to fifth year inclusive	**3,490**	2,345
Over five years	**1,000**	85
	7,210	3,778

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for a term ranging from one to ten years with fixed rentals.

30. CAPITAL AND OTHER COMMITMENTS

	2008 **HK$'000**	2007 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of plant and machinery	**156,220**	500
– construction of buildings	**7,141**	–

At 30 June 2008, the Group had commitments for future research costs of HK$125,000 (2007: HK$263,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2009.

31. RELATED PARTY TRANSACTIONS

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	**4,012**	4,012
Retirement benefit scheme contributions	**36**	30
Share-based payment expense	**–**	348
	4,048	4,390

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

32. POST BALANCE SHEET EVENT

On 10 July 2008, the Company granted a total of 18,600,000 share options to a director and employees to entitle the holders to subscribe for shares in the Company at the exercise price of HK$0.358 per share with exercisable period from 1 August 2008 to 31 July 2018.

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2008 and 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**				**Principal activities**
			Directly		**Indirectly**		
			2008 %	2007 %	**2008 %**	2007 %	
Art Bright Holdings Limited	Hong Kong	HK$1	**–**	N/A	**100**	N/A	Investment holding
Art Gate Limited	Hong Kong	HK$1	**–**	N/A	**100**	N/A	Investment holding
Fuzhou Huaguan *	PRC	RMB70,000,000	**–**	–	**100**	100	Manufacture and sale of finished woven fabrics

33. PRINCIPAL SUBSIDIARIES (continued)

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				Principal activities
			Directly		Indirectly		
			2008 %	2007 %	2008 %	2007 %	
Fuzhou Huasheng *	PRC	US$4,000,000	–	–	100	100	Manufacture and sale of finished woven fabrics
Global Art International Limited	BVI	US$1 Ordinary share	–	–	100	100	Investment holding
Good Fame Group Limited	BVI	US$1 Ordinary share	–	–	100	100	Investment holding
Right Lane International Limited	BVI	US$30,000 Ordinary shares	100	100	–	–	Investment holding
Well Master Enterprise Limited	Hong Kong	HK$1	–	N/A	100	N/A	Investment holding
Wide Launch Investment Limited	BVI	US$1 Ordinary share	–	N/A	100	N/A	Investment holding
Zhengzhou Hongye Textile Company Limited* ("Zhengzhou Hongye")	PRC	HK$35,000,000	–	N/A	100	N/A	To commence business
Zhengzhou Huatai**	PRC	RMB50,000,000	–	N/A	100	N/A	To commence business

* Fuzhou Huaguan, Fuzhou Huasheng and Zhengzhou Hongye are established as wholly foreign-owned enterprises under the relevant PRC law and regulations with an operating period up to 26 July 2010, 6 December 2054 and 6 August 2036, respectively.

** Zhengzhou Huatai is established as wholly domestic-owned enterprise under the relevant PRC law and regulations with an operating period up to 4 June 2022.

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				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	420,692	605,815	615,767	645,575	**674,195**
Profit for the year	75,354	94,795	92,346	86,025	**91,216**

ASSETS AND LIABILITIES

	As at 30 June				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	380,310	548,462	633,020	729,085	**1,204,544**
Total liabilities	(75,165)	(170,363)	(172,768)	(87,698)	**(408,243)**
Shareholders' funds	305,145	378,099	460,252	641,387	**796,301**