錦藝紡織科技國際有限公司

ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

Interim Report

2008

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SHARE LISTING

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

Report on Review of Interim Financial Information

Deloitte.
德勤

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

Introduction

We have reviewed the interim financial information set out on pages 3 to 15, which comprise the condensed consolidated balance sheet of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2009

The Board of Directors (the "Board") of Art Textile Technology International Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2008 (the "Period"), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

Condensed Consolidated Income Statement

For the six months ended 31 December 2008

		Six months ended	
		31.12.2008	31.12.2007
		(unaudited)	(unaudited)
	NOTES	**HK$'000**	HK$'000
Turnover		**303,351**	300,870
Cost of sales		**(252,426)**	(214,418)
Gross profit		**50,925**	86,452
Other income		**1,633**	7,210
Administrative expenses		**(18,806)**	(15,052)
Selling and distribution costs		**(9,253)**	(8,330)
Other expenses		**(1,494)**	(1,099)
Finance costs	*4*	**(5,879)**	(308)
Profit before taxation		**17,126**	68,873
Income tax expense	*5*	**(9,448)**	(19,081)
Profit for the period	*6*	**7,678**	49,792
Dividend	*7*	**–**	10,406
EARNINGS PER SHARE	*8*		
– Basic, in Hong Kong cents		**0.74**	4.78
– Diluted, in Hong Kong cents		**N/A**	4.76

Condensed Consolidated Balance Sheet

At 31 December 2008

	NOTES	31.12.2008 (unaudited) HK$'000	30.6.2008 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	499,276	454,858
Prepaid lease payments – non-current portion		119,690	116,344
Deposits for acquisition of plant and equipment		30,008	11,746
		648,974	582,948
CURRENT ASSETS			
Inventories		27,113	36,210
Trade and other receivables	10	72,250	74,015
Prepaid lease payments – current portion		2,589	2,494
Pledged bank deposits		18,377	4,484
Bank balances and cash		356,390	504,393
		476,719	621,596
CURRENT LIABILITIES			
Trade and other payables	11	136,382	322,541
Tax liabilities		11,246	15,539
Bank borrowings – due within one year	12	111,212	34,577
Obligations under finance leases – due within one year		11,073	10,552
		269,913	383,209
NET CURRENT ASSETS		206,806	238,387
		855,780	821,335
CAPITAL AND RESERVES			
Share capital	13	10,406	10,406
Share premium and other reserves		812,590	785,895
		822,996	796,301
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	12	11,667	–
Obligations under finance leases – due after one year		17,077	22,279
Deferred tax liabilities		4,040	2,755
		32,784	25,034
		855,780	821,335

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 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 2007	10,406	165,838	136	22,635	55,193	10,406	1,689	375,084	641,387
Exchange difference arising on translation recognised directly in equity	–	–	–	36,029	–	–	–	–	36,029
Profit for the period	–	–	–	–	–	–	–	49,792	49,792
Total recognised income for the period	–	–	–	36,029	–	–	–	49,792	85,821
Transfer	–	–	–	–	6,853	–	–	(6,853)	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	6,062	–	6,062
Final dividend paid	–	–	–	–	–	(10,406)	–	–	(10,406)
At 31 December 2007	10,406	165,838	136	58,664	62,046	–	7,751	418,023	722,864
Exchange difference arising on translation recognised directly in equity	–	–	–	32,013	–	–	–	–	32,013
Profit for the period	–	–	–	–	–	–	–	41,424	41,424
Total recognised income for the period	–	–	–	32,013	–	–	–	41,424	73,437
Transfer	–	–	–	–	3,677	–	–	(3,677)	–
At 30 June 2008	10,406	165,838	136	90,677	65,723	–	7,751	455,770	796,301
Exchange difference arising on translation recognised directly in equity	–	–	–	16,419	–	–	–	–	16,419
Profit for the period	–	–	–	–	–	–	–	7,678	7,678
Total recognised income for the period	–	–	–	16,419	–	–	–	7,678	24,097
Transfer	–	–	–	–	2,321	–	–	(2,321)	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	2,598	–	2,598
At 31 December 2008	**10,406**	**165,838**	**136**	**107,096**	**68,044**	**–**	**10,349**	**461,127**	**822,996**

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2008

	Six months ended	
	31.12.2008	31.12.2007
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash from operating activities	**28,741**	66,602
Net cash used in investing activities		
Purchase of property, plant and equipment	**(158,228)**	(34,988)
Repayments to former shareholders of subsidiaries acquired through acquisition of subsidiaries in prior year	**(41,565)**	–
Payments for consideration payable for acquisition of assets through acquisition of subsidiaries in prior year	**(35,556)**	–
Deposits paid for acquisition of plant and equipment	**(25,706)**	–
Increase in pledged deposits	**(13,791)**	–
Addition of prepaid leases payments	**(3,789)**	–
Interest received	**1,625**	2,437
Settlements of other receivables	**12,667**	–
Other investing cash outflow	**–**	(241)
	(264,343)	(32,792)
Net cash from (used in) financing activities		
Repayments of bank borrowings	**(13,165)**	(10,638)
Repayments of obligations under finance leases	**(5,427)**	–
Interest paid on bank borrowings	**(3,936)**	(308)
Interest paid on financial leases	**(1,943)**	–
New bank borrowings raised	**100,682**	8,511
Dividend paid	**–**	(10,406)
	76,211	(12,841)
Net (decrease) increase in cash and cash equivalents	**(159,391)**	20,969
Effect of foreign exchange rate changes	**11,388**	31,127
Cash and cash equivalents at beginning of the period	**504,393**	487,659
Cash and cash equivalent at end of the period represented by bank balances and cash	**356,390**	539,755

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2008

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2008.

In the current interim period, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfers on or after 1 July 2009

The application 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. 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. SEGMENT INFORMATION

No analysis on business segment is provided as all the Group's turnover and segment results were derived from the manufacture and sale of finished 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 People's Republic of China (the "PRC") and the assets are substantially located in the PRC.

4. FINANCE COSTS

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**3,936**	308
– Finance leases	**1,943**	–
	5,879	308

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax – PRC Foreign Enterprise Income Tax ("FEIT")	**8,226**	19,081
Deferred tax	**1,222**	–
	9,448	19,081

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 December 2007 and 2008.

5. INCOME TAX EXPENSE *(Continued)*

FEIT is provided on the estimated assessable income of the period 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.

Deferred taxation of HK$1,222,000 has been provided for in the condensed consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries during the period under the New Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

Tax concessions and holidays entitled by the Group

Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan"), Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng"), Zhengzhou Hongye Textile Company Limited ("Zhengzhou Hongye") and Zhengzhou Huatai Textile Company Limited ("Zhengzhou Huatai") are subsidiaries of the Company established in the PRC. Fuzhou Huasheng and Zhengzhou Hongye are exempted from FEIT for two years starting from its first profit-making year of operations and 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 tax rate, which is 50% relief on the tax rate for the following three years, was 12.5% for the period from 1 January 2007 to 31 December 2009. Zhengzhou Hongye did not generate any assessable profit prior to 1 January 2008 and its tax holiday is deemed to commence from 1 January 2008 onwards according to the New Law.

5. INCOME TAX EXPENSE *(Continued)*

Tax concessions and holidays entitled by the Group *(Continued)*

The applicable tax rate for Fuzhou Huaguan and Zhengzhou Huatai were changed from 27% to 25% from 1 January 2008 onwards. No provision for enterprise income tax has been made for Zhengzhou Huatai as it did not generate any assessable profits during the period.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**13,285**	10,993
Release of prepaid lease payments	**1,269**	174
Interest income	**(1,625)**	(2,437)

7. DIVIDEND

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final – Nil (2007: HK1.0 cent per share)	**–**	10,406

No dividend were paid, declared or proposed during the period. The directors do not recommend the payment of an interim dividend (2007: Nil).

8. EARNINGS PER SHARE

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

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period and earnings for the purposes of basic earnings per share	**7,678**	49,792
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**1,040,603**	1,040,603
Effect of dilutive potential ordinary shares in respect of share options	**–**	5,643
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,040,603**	1,046,246

No diluted earnings per share has been presented for the period ended 31 December 2008 because the exercise price of the share options was higher than the average market price for shares during the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$47,576,000 (1.7.2007 to 31.12.2007: HK$34,988,000) on the construction of and addition to its new manufacturing plant and machineries in the PRC in order to increase and upgrade its manufacturing capacities. Details of capital commitments were disclosed in note 15.

10. TRADE AND OTHER RECEIVABLES

The Group allows 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 balance sheet date:

	31.12.2008 HK$'000 (unaudited)	30.6.2008 HK$'000 (audited)
0 – 60 days	67,943	47,197
61 – 90 days	605	571
Over 90 days	–	8,367
Trade receivables	68,548	56,135
Other receivables	3,702	17,880
	72,250	74,015

11. TRADE AND OTHER PAYABLES

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

	31.12.2008 HK$'000 (unaudited)	30.6.2008 HK$'000 (audited)
0 – 60 days	31,439	44,226
61 – 90 days	13,625	–
Over 90 days	22,534	–
Trade payables	67,598	44,226
Other payables	68,784	278,315
	136,382	322,541

12. BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK$100,682,000 (1.7.2007 to 31.12.2007: HK$8,511,000). The loans carried interest at market rates ranging from 4.54% to 9.71% per annum and are repayable in instalments over a period of 3 years. The proceeds were used for general working capital purposes and to finance the acquisition of property, plant and equipment.

13. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Ordinary shares of HK$0.01 each, at 1 July 2007, 1 July 2008 and 31 December 2008		
Authorised	2,000,000,000	20,000
Issued and fully paid	1,040,602,583	10,406

14. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopts a share option scheme for eligible participants, including directors and employees of the Group and other participants. Details of the share options granted to a director and employees of the Group outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 July 2007	58,250,000
Granted during the period	29,200,000
Outstanding at 31 December 2007	87,450,000
Lapsed during the period	(2,000,000)
Outstanding at 30 June 2008	85,450,000
Granted during the period	18,600,000
Outstanding at 31 December 2008	104,050,000

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

The options granted during the period entitle the holders to subscribe for shares in the Company at the exercise price of HK$0.358 per share during the period from 1 August 2008 to 31 July 2018.

The closing price of the Company's shares on 10 July 2008, the date of grant of the options, was HK$0.340.

The fair value of the options determined at the date of grant using the Black-Scholes option pricing model was HK$2,598,000. The Group recognised an expense of HK$2,598,000 as share-based payment expense for the six months ended 31 December 2008.

15. CAPITAL COMMITMENTS

	31.12.2008	30.6.2008
	HK$'000	HK$'000
	(unaudited)	(audited)
Capital expenditures contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of plant and machinery	**138,504**	156,220
– construction of buildings	**4,028**	7,141

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven and cotton fabrics targeting at mid to high-end markets both in the People's Republic of China (the "PRC") and overseas. The Group vertically integrates its production process to 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 woven fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, the Group's existing dyeing auxiliary facilities enlarge the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

In order to capture the demand for pure cotton knit fabrics from current customers, the Group acquired yarn spinning assets in previous financial year. This acquisition aligns with the Group's future development plan. The assets acquired comprise of plant, machinery and equipment and related auxiliary facilities in Zhengzhou city of Henan province, the PRC. Its construction, delivery, and installation were completed before the end of the Period. The trial run has been started in the first quarter of 2009 and the commercial production is expected to be commenced in the second quarter of 2009. The final product, yarn for weaving into pure cotton knit fabrics, would be both for sale to external customers and for internal use. Corresponding to the international standard dyeing production line installed at the plant in Changle City, the Group would be able to integrate its production process vertically, from yarn spinning, raw fabric weaving to dyeing.

To be in line with the Group's efforts in expanding sales markets, the Group participated in the textile fair held in Paris, France during the Period so as to promote and sell its products to overseas customers.

Turnover

For the Period, the Group recorded a slight increase in turnover of approximately HK$303,351,000 (2007: HK$300,870,000), approximately 0.8% more than that in 2007. The increase in turnover was attributable to the currency appreciation of Chinese Yuan when compared with that of 2007.

Gross Profit

The gross profit margin of the Group of approximately 16.8% in the Period decreased enormously as that in the 2007 of approximately 28.7%. It was due to an increase in costs of raw materials and energy costs, and the slowdown in both domestic and foreign demand as well as more intensive market competition.

Profit for the Period

The Group's profit for the Period was approximately HK$7,678,000 (2007: HK$49,792,000), which is approximately 84.6% less than that in 2007. Net profit margin for the Period was approximately 2.5% (2007: 16.5%) which decreased significantly due to the increase in cost of sales of the Group's existing products and administration expenses of the new plant in Zhengzhou while no production took place during the Period.

Expenses

Administrative expenses amounted to approximately HK$18,806,000 (2007: HK$15,052,000), representing approximately 6.2% (2007: 5.0%) of turnover for the Period. Administrative expenses increased by approximately 24.9% when compared with that of 2007. It was due to the charge of the grant of share options and additional administrative expenses incurred for the plant in Zhengzhou during the Period.

Selling and distribution costs amounted to approximately HK$9,253,000 (2007: HK$8,330,000), representing approximately 3.1% (2007: 2.8%) of turnover for the Period. Selling and distribution costs increased by approximately 11.1% as compared with that of 2007 was due to an increase in advertisements and promotional charges incurred during the Period.

Other expenses amounted to approximately HK$1,494,000 (2007: HK$1,099,000), representing approximately 0.5% (2007: 0.4%) of turnover for the Period. The increase was due to an increase in research and development expenditure incurred during the Period.

Finance costs amounted to approximately HK$5,879,000 (2007: HK$308,000), representing approximately 1.9% (2007: 0.1%) of turnover for the Period. The increase was due to the draw down of bank loans during the Period and payments of finance leases for the purchase of machineries and equipment at the plant in Zhengzhou.

Dividend

The directors do not recommend the payment of an interim dividend for the period ended 31 December 2008 (2007: Nil).

FUTURE PLANS AND PROSPECTS

In the second half year of 2008, the financial tsunami adversely affected the global economy. As a results, both domestic and overseas textile markets had been affected. Although the PRC government has adopted some macro-economic measures, such as increasing the tax rebate rate for certain textile products, it would take some time for these measures to improve the macro-economic environment as a whole. Since the harmful impacts are expected to be lasted for some time, the Group continues to preserve its strong distribution network through maintaining good and close relationship with distribution agents and valuable customers and strengthening its present sales and marketing team before full recovery of the global economy.

The construction of the plant for spinning yarn in Zhengzhou was completed in October 2008 and the first production line was installed consequently. Trial run was carried out at the beginning of 2009. The yarn production is expected to be commenced in the second quarter of 2009. The Group will install three other production lines and conduct a trial run in 2009 and early 2010 and the production will commence accordingly once the installation and trial run are completed satisfactorily. The full production capacity of these four production lines is estimated to be approximately 15,000 tons to 17,000 tons per annum. Good quality of cotton would be used for spinning yarn which is targeted at the high end market, both domestic and overseas. Yarn is the raw material of pure cotton knit fabrics; its weaving process would be subcontracted to nominated suppliers and dyeing process would be done at the Changle plant; which will enable the Group to develop vertical integration.

In addition, the Group purchased a piece of land adjacent to the Changle plant during the Period for industrial purpose. The detailed planning would be processed after smooth production of all four production lines carried out in the Zhengzhou plant in next year.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had net current assets and total assets less current liabilities of approximately HK$206,806,000 (30 June 2008: HK$238,387,000) and approximately HK$855,780,000 (30 June 2008: HK$821,335,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 31 December 2008, the Group had cash and bank deposits of approximately HK$374,767,000 (30 June 2008: HK$508,877,000). The current ratio of the Group was approximately 176.6% (30 June 2008: 162.2%).

Shareholders' fund of the Group as at 31 December 2008 was approximately HK$822,996,000 (30 June 2008: HK$796,301,000). As at 31 December 2008, the total bank borrowings of the Group, wholly repayable within 5 years from the balance sheet date, denominated in RMB92,000,000 and HK$18,334,000 were equivalent to HK$122,879,000 (30 June 2008: HK$34,577,000); and obligations under finance leases for machineries and equipment of approximately HK$28,150,000 (30 June 2008: HK$32,831,000), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 18.4% (30 June 2008: 8.5%).

The financial health of the Group has been strong throughout the Period.

FINANCING

As at 31 December 2008, the total banking facilities of the Group amounted to about HK$143,182,000 (30 June 2008: HK$100,000,000), of which, approximately HK$129,668,000 (30 June 2008: HK$41,303,000) 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 31 December 2008, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the Period, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in Chinese Yuan. Hence, no financial instrument for hedging was employed.

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 Chinese Yuan and at floating rate basis.

CHARGE ON GROUP'S ASSETS

As at 31 December 2008, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$87,642,000 (30 June 2008: HK$79,721,000) and approximately HK$65,603,000 (30 June 2008: HK$32,121,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$18,377,000 (30 June 2008: HK$4,484,000).

As at 31 December 2008, the carrying value of the Group's plant and machinery held under finance leases was approximately HK$50,418,000 (30 June 2008: HK$49,298,000).

As at 31 December 2008, certain leasehold land with carrying value of approximately HK$102,660,000 (30 June 2008: HK$103,166,000) was pledged to a contractor to secure the payments of certain construction in progress payable.

STAFF POLICY

The Group had 926 employees altogether in the PRC and Hong Kong as at 31 December 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' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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 1)*	332,170,000	31.92%
Mr. Chen Jinyan	Held by controlled corporation *(Note 2)*	249,740,000	24.00%

Notes:

1. 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.

2. 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	10,400,000	10,400,000

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 31 December 2008.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire 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 Period or at any time during the Period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 ("Concordia") *(Note1)*	Beneficial owner	179,355,000	17.24%
Dresdner VPV N.V. *(Note2)*	Beneficial owner	78,947,800	7.59%

Notes:

1. According to the response of 9 March 2009 from Concordia under section 329 of the SFO, the 178,940,000 Shares are owned by Concordia Asia Pacific Multi Strategy Fund Ltd., Concordia Institutional Multi Strategy Ltd., Concordia Partners LP. and Concordia Mac29 Ltd. and out of which 162,835,000 Shares were held by UBS AG as its prime broker.

2. These shares were beneficially held by Dresdner VPV N.V. whose ultimate holding company, Allianz Finanzbeteiligungs GnbH, indirectly holds 81.1% interest in Dresdner VPV N.V.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements of the Company's 2008 annual report.

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.

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

Grantee	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2008	Granted during the Period	Exercised during the Period	Outstanding at 31.12.2008
A director							
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
	10.7.2008	1.8.2008 to 31.7.2018	0.358	–	1,900,000	–	1,900,000
				8,500,000	1,900,000	–	10,400,000
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	29,250,000	–	–	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
	10.7.2008	1.8.2008 to 31.7.2018	0.358	–	16,700,000	–	16,700,000
				76,950,000	16,700,000	–	93,650,000
Granted Total				85,450,000	18,600,000	–	104,050,000

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

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

CODE ON CORPORATE GOVERNANCE

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed upon specific enquiry that they have complied with the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

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

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

On behalf of the Board
Chen Jinyan
Chairman

Hong Kong
20 March 2009