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 2009

Corporate Information

BOARD OF DIRECTORS

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

* *Independent Non-executive Director*

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Dominic K.F. Chan & Co.

PRINCIPAL BANKERS

Bank of China
Bank of Communications
China CITIC Bank
China Merchants Bank
Fuzhou City Commercial Bank
Guangdong Development Bank
Industrial Bank
Industrial and Commercial Bank of China
Ping An Bank
Standard Chartered Bank

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)

Report on Review of Interim Financial Information

陳錦福會計師事務所
Dominic K.F. Chan & Co.
Certified Public Accountants (Practising)

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 18, which comprise the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Dominic K.F. Chan & Co.,
Certified Public Accountants (Practising)
Hong Kong
19 March 2010

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 2009 (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 Statement of Comprehensive Income

For the six months ended 31 December 2009

		Six months ended	
	NOTES	**31.12.2009 (unaudited) HK$'000**	31.12.2008 (unaudited) HK$'000
Turnover		**377,615**	303,351
Cost of sales		**(339,111)**	(252,426)
Gross profit		**38,504**	50,925
Other income		**9,087**	1,633
Administrative expenses		**(17,350)**	(18,806)
Selling and distribution costs		**(10,982)**	(9,253)
Other expenses		**(1,334)**	(1,494)
Finance costs	*4*	**(9,688)**	(5,879)
Profit before taxation		**8,237**	17,126
Income tax expense	*5*	**(6,774)**	(9,448)
Profit for the period	*6*	**1,463**	7,678
Other comprehensive income for the period			
Exchange difference arising on translation of financial statement of foreign operations		**–**	16,419
Total comprehensive income for the period		**1,463**	24,097
EARNINGS PER SHARE	*8*		
– Basic, in Hong Kong cents		**0.14**	0.74
– Diluted, in Hong Kong cents		**0.14**	0.74

Condensed Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	31.12.2009 (unaudited) HK$'000	30.6.2009 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**565,453**	530,136
Prepaid lease payments – non-current portion		**118,786**	120,100
Deposits for acquisition of plant and equipment		**36,415**	21,164
		720,654	671,400
CURRENT ASSETS			
Inventories		**66,033**	59,342
Trade and other receivables	*10*	**167,110**	97,115
Prepaid lease payments – current portion		**2,627**	2,627
Pledged bank deposits		**65,771**	37,139
Bank balances and cash		**394,395**	434,804
		695,936	631,027
CURRENT LIABILITIES			
Trade and other payables	*11*	**201,315**	206,717
Tax liabilities		**3,483**	9,460
Bank borrowings – due within one year	*12*	**292,955**	234,163
Obligations under finance leases – due within one year		**30,438**	11,781
		528,191	462,121
NET CURRENT ASSETS		**167,745**	168,906
		888,399	840,306
CAPITAL AND RESERVES			
Share capital	*13*	**10,406**	10,406
Share premium and other reserves		**815,252**	813,789
		825,658	824,195
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**56,473**	11,003
Deferred tax liabilities		**6,268**	5,108
		62,741	16,111
		888,399	840,306

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2009

	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 2008	10,406	165,838	136	90,677	65,723	–	7,751	455,770	796,301
Other comprehensive income									
Exchange difference arising on translation of foreign operations	–	–	–	16,419	–	–	–	–	16,419
Profit for the period	–	–	–	–	–	–	–	7,678	7,678
Total comprehensive 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
Other comprehensive income									
Exchange difference arising on translation of foreign operations	–	–	–	1,606	–	–	–	–	1,606
Loss for the period	–	–	–	–	–	–	–	(407)	(407)
Total comprehensive income for the period	–	–	–	1,606	–	–	–	(407)	1,199
At 30 June 2009	10,406	165,838	136	108,702	68,044	–	10,349	460,720	824,195
Other comprehensive income	–	–	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	–	–	–	1,463	1,463
Total comprehensive income for the period	–	–	–	–	–	–	–	1,463	1,463
Cancellation of share options	–	–	–	–	–	–	(7,751)	7,751	–
At 31 December 2009	10,406	165,838	136	108,702	68,044	–	2,598	469,934	825,658

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 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 Statement of Cash Flows

For the six months ended 31 December 2009

	Six months ended	
	31.12.2009 (unaudited) HK$'000	31.12.2008 (unaudited) HK$'000
Net cash from operating activities	**36,440**	28,741
Net cash used in investing activities		
Purchase of property, plant and equipment	**(77,519)**	(158,228)
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	**(15,251)**	(25,706)
Increase in pledged deposits	**(28,632)**	(13,791)
Depreciation/(addition) of prepaid leases payments	**1,314**	(3,789)
Interest received	**1,006**	1,625
Settlements of other receivables	**–**	12,667
	(119,082)	(264,343)
Net cash from financing activities		
Repayments of bank borrowings	**(194,390)**	(13,165)
Repayments of obligations under finance leases	**(6,871)**	(5,427)
Interest paid on bank borrowings	**(8,414)**	(3,936)
Interest paid on finance leases	**(1,274)**	(1,943)
New bank borrowings raised	**253,182**	100,682
	42,233	76,211
Net decrease in cash and cash equivalents	**(40,409)**	(159,391)
Effect of foreign exchange rate changes	**–**	11,388
Cash and cash equivalents at beginning of the period	**434,804**	504,393
Cash and cash equivalent at end of the period represented by bank balances and cash	**394,395**	356,390

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2009

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 2009 except for the matters described below.

In the current interim period, the Group has applied, for the first time, a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretation ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, that are relevant to its operations and effective for the Group's financial year beginning on or after 1 July 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 3 (Revised)	Business Combinations
HKFRS 5 (Amendments)	Plan to sell the controlling interest in a subsidiary
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfer of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009 except for the improvements that are effective for annual periods on or after 1 January 2010

The above new/revised HKFRSs are mandatory for the first time for the financial year beginning on 1 July 2009. The adoption of the new/revised HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard also introduces the statement of comprehensive income, with all items of income and expenses recognised in profit or loss, together with all items of recognised income and expenses recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one performance statement: the consolidated statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally to the chief operating decision-maker for the purpose of allocating resources to segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3 to the condensed consolidated financial statements).

During the current accounting period, the Group has early adopted HKFRS 8 "Operating Segment", which is effective for accounting periods beginning on or after 1 January 2010. The early adoption of HKFRS 8 results in new disclosures in the financial statements and does not have impact on the Group's results of operations and financial position.

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 2009[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendments)	Classification of Rights Issues[3]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[4]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010, as appropriate
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 January 2010
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 July 2010

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretation will have no material effect on how the results and the financial position of the Group are prepared and presented.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

All of the Group's operations and assets are located in the PRC, except that less than 10% of the Group's turnover and profit in connection with sales to overseas customers are not separately reported. Therefore, the chief operating decision-maker only considers the Group's business from a product perspective, rather than from a geographic perspective. From a product perspective, management assesses the performance from sales of yarn and garment fabrics.

The chief operating decision-maker assesses the performance of the operating segments based on sales and net profit.

	Yarn HK$'000	Garment fabrics HK$'000	Total HK$'000
Six months ended 31 December 2009			
Total sales	**65,341**	**317,820**	**383,161**
Inter-segment sales	**(1,749)**	**(3,797)**	**(5,546)**
Turnover (from external customers)	**63,592**	**314,023**	**377,615**
Segment results	**(20,440)**	**30,782**	**10,342**
Income tax expense			**(6,774)**
Central administration costs			**(2,105)**
Profit for the period			**1,463**
Depreciation and amortisation	**(17,364)**	**(13,212)**	**(30,576)**

3. SEGMENT INFORMATION *(Continued)*

	Yarn HK$'000	Garment fabrics HK$'000	Total HK$'000
Six months ended 31 December 2008			
Total sales	–	307,149	307,149
Inter-segment sales	–	(3,798)	(3,798)
Turnover (from external customers)	–	303,351	303,351
Segment results	(10,185)	32,620	22,435
Income tax expense			(9,448)
Central administration costs			(5,309)
Profit for the period			7,678
Depreciation and amortisation	(681)	(12,604)	(13,285)

4. FINANCE COSTS

	Six months ended	
	31.12.2009 HK$'000 (unaudited)	31.12.2008 HK$'000 (unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**8,414**	3,936
– Finance leases	**1,274**	1,943
	9,688	5,879

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2009	31.12.2008
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Foreign Enterprise Income Tax ("FEIT")		
– Current income tax	**5,614**	8,226
Deferred tax	**1,160**	1,222
	6,774	9,448

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 2008 and 2009.

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 the Implementation Regulations of the New Law (the "Implementation Regulations"). The New Law and the 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 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.

5. INCOME TAX EXPENSE *(Continued)*

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 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. 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.

The applicable tax rate for Fuzhou Huaguan and Zhengzhou Huatai are 25% (1.7.2008 to 31.12.2008: 25%). No provision for FEIT has been made for Zhengzhou Huatai as it did not generate any assessable profits during the period.

Deferred taxation of HK$1,160,000 (1.7.2008 to 31.12.2008: 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 ended 31 December 2009 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.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2009	31.12.2008
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**30,576**	13,285
Release of prepaid lease payments	**1,313**	1,269
Interest income	**(1,005)**	(1,625)

7. DIVIDEND

	Six months ended	
	31.12.2009	31.12.2008
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final – Nil (2008: Nil)	**–**	–

No dividend were paid, declared or proposed during the period. The directors do not recommend the payment of an interim dividend (2008: Nil).

8. EARNINGS PER SHARE

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

	Six months ended	
	31.12.2009	31.12.2008
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period and earnings for the purposes of computing basic earnings per share	**1,463**	7,678
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of computing basic earnings per share	**1,040,602**	1,040,602

No diluted earnings per share has been presented for the periods ended 31 December 2008 and 2009 because the exercise prices of the share options were higher than the average market prices for the Company's shares during the periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$66,481,000 (1.7.2008 to 31.12.2008: HK$47,576,000) on the construction of and addition in its new manufacturing plant and machinery 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 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables net of allowance for doubtful debts at the end of the reporting period:

	31.12.2009	30.6.2009
	HK$'000	HK$'000
	(unaudited)	(audited)
0 – 60 days	**82,129**	56,224
61 – 90 days	**6,769**	2,984
Over 90 days	**273**	1,247
Trade and bill receivables	**89,171**	60,455
Other receivables	**77,939**	36,660
	167,110	97,115

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and bill payables at the end of the reporting period:

	31.12.2009	30.6.2009
	HK$'000	HK$'000
	(unaudited)	(audited)
0 – 60 days	**62,805**	51,517
61 – 90 days	**42,807**	8,693
Over 90 days	**40,520**	89,520
Trade and bill payables	**146,132**	149,730
Other payables	**55,183**	56,987
	201,315	206,717

12. BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK$253,182,000 (1.7.2008 to 31.12.2008: HK$100,682,000). The loans carried interest at market rates ranging from 5.310% to 6.638% per annum and are repayable within a year. 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 2008, 1 July 2009 and 31 December 2009		
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 2008	85,450,000
Granted during the period	18,600,000
Outstanding at 31 December 2008 and at 30 June 2009	104,050,000
Cancelled during the period	(85,450,000)
Outstanding at 31 December 2009	18,600,000

The options cancelled during the period entitle the holders to subscribe for shares in the Company at the exercise prices of HK$0.612, HK$0.450 and HK$0.572 per share with number of options 33,250,000, 23,000,000 and 29,200,000 respectively.

The corresponding share-based compensation reserve of HK$7,751,000 was not reversed to the Company's statement of comprehensive income and the consolidated statement of comprehensive income for the period ended 31 December 2009, and it was directly transferred to retained earnings of the Company and the Group.

15. CAPITAL AND OTHER COMMITMENTS

	31.12.2009	30.6.2009
	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	**–**	96,180
– construction of buildings	**–**	2,042

At 31 December 2009, the Group had commitments for future research costs of HK$724,000 (2008: Nil) repayable under a non-cancellable consultancy agreement which will expire on 31 March 2014.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of cotton yarn and finished woven fabrics and cotton fabrics targeting at mid to high-end markets both in the PRC and overseas. The Group vertically integrates its production process to include research and development, yarn spinning, 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 part of the woven fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, the Group's existing dyeing machinery and equipment 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 prior 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 substantially completed in 2008. The commercial production of the first and second production lines commenced during the Period. The final product, yarn for weaving into pure cotton knit fabrics, were all sold to external customers. However, in the long run, part of the yarn would be planned for internal use. Corresponding to the international standard dyeing machinery installed at the plant in Changle city, the Group would be able to integrate its production process vertically, from yarn spinning, grey fabric weaving to garment fabric 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 turnover of approximately HK$377,615,000 (2008: HK$303,351,000), approximately 24.5% more than that of 2008. The increase in turnover was attributable from the commencement of commercial sales of the plant in Zhengzhou city during the Period.

Gross Profit

The gross profit margin of the Group of approximately 10.2% in the Period decreased enormously compared with that of 2008 of approximately 16.8%. It was mainly due to an increase in costs of raw materials and energy and depreciation incurred by the plant in Zhengzhou city, of which, its preliminary phase of commercial production began during the Period.

Profit for the Period

The Group's profit for the Period was approximately HK$1,463,000 (2008: HK$7,678,000), approximately 80.9% less than that in 2008. Net profit margin for the Period was approximately 0.4% (2008: 2.5%) which dropped due to the increase in the cost of sales and administration expenses of the new plant in Zhengzhou city, which commenced its preliminary phase of commercial production during the Period.

Expenses

Administrative expenses amounted to approximately HK$17,350,000 (2008: HK$18,806,000), representing approximately 4.6% (2008: 6.2%) of turnover for the Period. Administrative expenses decreased by approximately 7.7% when compared with that of 2008. It was due to the implementation of cost control policy for the Group since the occurrence of global economic downturn.

Selling and distribution costs amounted to approximately HK$10,982,000 (2008: HK$9,253,000), representing approximately 2.9% (2008: 3.1%) of turnover for the Period. The increase in selling and distribution costs by approximately 18.7% as compared with that of 2008 was due to the commencement of commercial sales of the plant in Zhengzhou city during the Period.

Other expenses amounted to approximately HK$1,334,000 (2008: HK$1,494,000), representing approximately 0.4% (2008: 0.5%) of turnover for the Period and was maintained at the same level as previous period.

Finance costs amounted to approximately HK$9,688,000 (2008: HK$5,879,000), representing approximately 2.6% (2008: 1.9%) of turnover for the Period. The increase was due to the draw down of more bank loans during the Period.

Dividend

The directors of the Company (the "Director") do not recommend the payment of an interim dividend for the Period (2008: Nil).

FUTURE PLANS AND PROSPECTS

The textile industry gradually recovers since the second half of 2009, but still has some distant to reach to the climax happened before, especially for the overseas textile markets. Nevertheless, the Group believes that the operating environment of Chinese textile exports will continue to improve and therefore continues to propel its strong distribution network through maintaining good and close relationship with distribution agents and valuable customers and strengthening its present sales and marketing teams before full recovery of the global economy. The Group also keeps putting effort in research and development of new products and improvement of existing products in order to meet the needs of dynamic textile and garment markets.

The construction of the plant for spinning yarn in Zhengzhou city was accomplished by the end of 2008 and the installation and trial run of the first and second production lines were all completed in the mid of 2009. The yarn production commenced subsequently during the Period. Simultaneously, the installation and trial run of last two production lines have been conducted during the Period and early 2010. Their commercial production will begin in the first quarter and the second quarter of 2010, respectively. The full production capacity of these four production lines is estimated to be approximately 15,000 tons per annum. Good quality of cotton would be used for spinning yarn which is targeted at the mid to high-end markets. In the long run, part of the yarn produced at the Zhengzhou plant would be weaved into pure cotton knit fabrics, and dyeing process of such fabrics would be completed at the Changle plant. The above processes will enable the Group to develop vertical integration.

Looking ahead, the Group will continue to capture opportunities for expansion and diversify its business for long term development in order to maximize the values of the shareholders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had net current assets and total assets less current liabilities of approximately HK$167,745,000 (30 June 2009: HK$168,906,000) and HK$888,399,000 (30 June 2009: HK$840,306,000), 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 2009, the Group had cash and bank deposits of approximately HK$460,166,000 (30 June 2009: HK$471,943,000). The current ratio of the Group was approximately 131.8% (30 June 2009: 136.6%).

Shareholders' fund of the Group as at 31 December 2009 was approximately HK$825,658,000 (30 June 2009: HK$824,195,000). As at 31 December 2009, the total bank borrowings of the Group, repayable within 12 months from the date of the statement of financial position, denominated in RMB257,800,000 were equivalent to HK$292,955,000 (30 June 2009: HK$234,163,000); and obligations under finance leases for machinery and equipment of approximately HK$86,911,000 (30 June 2009: HK$22,784,000), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 46.0% (30 June 2009: 31.2%).

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

FINANCING

As at 31 December 2009, the total banking facilities of the Group amounted to about HK$412,273,000 (30 June 2009: HK$374,115,000), of which, approximately HK$352,967,000 (30 June 2009: HK$323,830,000) 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 2009, 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 Renminbi. 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 at floating rate basis.

CHARGE ON GROUP'S ASSETS

As at 31 December 2009, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$215,956,000 (30 June 2009: HK$290,253,000) and approximately HK$55,859,000 (30 June 2009: HK$60,619,000), respectively, and certain inventory with value of approximately HK$19,574,000 (30 June 2009: HK$15,733,000) were all pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$65,771,000 (30 June 2009: HK$37,139,000).

As at 31 December 2009, the carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$183,874,000 (30 June 2009: HK$49,420,000).

As at 30 June 2009, certain leasehold land with carrying value of approximately HK$59,171,000 was pledged to a contractor to secure the payments of certain construction in progress payable. During the Period, the pledge was fully released.

STAFF POLICY

The Group had 1,308 employees altogether in the PRC and Hong Kong as at 31 December 2009. 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 date of the statement of financial position, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, 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 Hong Kong Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions

(a) Ordinary shares of HK$0.01 each of the Company

Name of Directors	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, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Chen Dong.

(2) The shares are held by 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.

(b) Share options

Name of Director	Capacity	Number of share options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	1,900,000	1,900,000

Note: Mr. Chen Jinqing, the youngest brother of Mr. Chen Jinyan and Mr. Chen Dong is appointed as an executive Director on 1 February 2010; accordingly he is deemed to be interested in 2,400,000 share options granted to his spouse on 10 June 2008, to subscribe for 2,400,000 shares which may be exercised between 1 August 2008 and 31 July 2018 (both days inclusive) at an exercise price of HK$0.358 per share.

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 2009.

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 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 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 2009, 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
Dresdner VPV N.V.	Beneficial owner	69,877,600	6.72%

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 2009.

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 2009 annual report.

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 1.7.2009	Granted during the Period	Exercised during the Period	Cancelled during the Period	Outstanding at 31.12.2009
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	0.450	4,500,000	–	–	4,500,000	–
	10.7.2008	1.8.2008 to 31.7.2018	0.358	1,900,000	–	–	–	1,900,000
				10,400,000	–	–	8,500,000	1,900,000
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	0.450	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
				93,650,000	–	–	76,950,000	16,700,000
Granted Total				104,050,000	–	–	85,450,000	18,600,000

Note: Mr. Chen Jinqing, the youngest brother of Mr. Chen Jinyan and Mr. Chen Dong is appointed as an executive Director on 1 February 2010; accordingly he is deemed to be interested in 2,400,000 share options granted to his spouse on 10 June 2008, to subscribe for 2,400,000 shares which may be exercised between 1 August 2008 and 31 July 2018 (both days inclusive) at an exercise price of HK$0.358 per share.

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 Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Having made specific enquiry of all Directors, all Directors have complied with the code of conduct and 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 comprises three members, all being independent non-executive Directors.

During the Period, the audit committee reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the Period 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
19 March 2010