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 2010

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 Communications
China CITIC Bank
Bank of Zhengzhou
Standard Chartered Bank

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 1407, 14th Floor, China Merchants Tower
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REGISTERED OFFICE
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
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Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
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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 16, which comprise the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2010 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
25 February 2011

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 (together, the "Group") for the six months ended 31 December 2010 (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 2010

		Six months ended	
	NOTES	**31.12.2010 (unaudited) HK$'000**	31.12.2009 (unaudited) HK$'000
Turnover		**371,877**	377,615
Cost of sales		**(313,455)**	(339,111)
Gross profit		**58,422**	38,504
Other income		**6,204**	9,087
Administrative expenses		**(19,445)**	(17,350)
Selling and distribution costs		**(10,710)**	(10,982)
Other expenses		**(1,346)**	(1,334)
Finance costs	*4*	**(22,831)**	(9,688)
Profit before tax		**10,294**	8,237
Income tax expense	*5*	**(890)**	(6,774)
Profit for the period	*6*	**9,404**	1,463
Other comprehensive income			
Exchange differences arising on translation		**29,523**	–
Other comprehensive income for the period (net of tax)		**29,523**	–
Total comprehensive income for the period		**38,927**	1,463
EARNINGS PER SHARE	*8*		
– Basic (HK cents per share)		**0.90**	0.14
– Diluted (HK cents per share)		**0.90**	0.14

Condensed Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	31.12.2010 (unaudited) HK$'000	30.6.2010 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	605,446	602,934
Prepaid lease payments		120,259	117,473
Deposits for acquisition of plant and equipment		8,563	8,309
		734,268	728,716
CURRENT ASSETS			
Inventories		131,078	104,642
Trade and other receivables	10	368,541	232,728
Pledged bank deposits		171,449	52,317
Bank balances and cash		541,911	427,116
		1,212,979	816,803
CURRENT LIABILITIES			
Trade and other payables	11	428,312	232,886
Tax liabilities		2,275	3,864
Secured bank borrowings	12	576,118	390,341
Obligations under finance leases		24,439	29,478
Unsecured bank borrowings		–	3,409
Deferred income		676	653
		1,031,820	660,631
NET CURRENT ASSETS		181,159	156,172
TOTAL ASSETS LESS CURRENT LIABILITIES		915,427	884,888
CAPITAL AND RESERVES			
Share capital	13	10,406	10,406
Share premium and reserves		858,267	819,340
		868,673	829,746
NON-CURRENT LIABILITIES			
Obligations under finance leases		35,232	43,713
Deferred income		3,721	3,921
Deferred tax liabilities		7,801	7,508
		46,754	55,142
		915,427	884,888

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Statutory reserve fund HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 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
Other comprehensive income	–	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	–	–	4,088	4,088
Total comprehensive income for the period	–	–	–	–	–	–	4,088	4,088
At 30 June 2010	10,406	165,838	136	108,702	68,044	2,598	474,022	829,746
Other comprehensive income	–	–	–	29,523	–	–	–	29,523
Profit for the period	–	–	–	–	–	–	9,404	9,404
Total comprehensive income for the period	–	–	–	29,523	–	–	9,404	38,927
At 31 December 2010	10,406	165,838	136	138,225	68,044	2,598	483,426	868,673

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 2010

	Six months ended	
	31.12.2010	31.12.2009
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash from operating activities	**87,422**	36,440
Net cash used in investing activities		
Purchase of property, plant and equipment	**(24,615)**	(77,519)
Deposits paid for acquisition of plant and equipment	**(254)**	(15,251)
Increase in pledged deposits	**(119,132)**	(28,632)
Depreciation of prepaid leases payments	**1,863**	1,314
Interest received	**990**	1,006
	(141,148)	(119,082)
Net cash from financing activities		
Repayments of bank borrowings	**(268,103)**	(194,390)
Repayments of obligations under finance leases	**(13,520)**	(6,871)
Interest paid on bank borrowings	**(20,068)**	(8,414)
Interest paid on finance leases	**(2,763)**	(1,274)
New bank borrowings raised	**450,471**	253,182
	146,017	42,233
Net increase/(decrease) in cash and cash equivalents	**92,291**	(40,409)
Effect of foreign exchange rate changes	**22,504**	–
Cash and cash equivalents at beginning of the period	**427,116**	434,804
Cash and cash equivalent at end of the period represented by bank balances and cash	**541,911**	394,395

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

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.

In the current period, the Group has applied, for the first time, a number of Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretation ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new HKFRS(s)") 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 2010.

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 32 (Amendments)	Classification of rights issue
HKFRS 1 (Amendments)	First-time adoption of HKFRSs – oil and gas assets
HKFRS 1 (Amendments)	First-time adoption of HKFRSs – limited exemption from comparative HKFRS 7 – disclosures for first-time adopters
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKAS 1 (Amendment), Presentation of financial statements

The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

The Group has not applied any new and revised standards, amendments or interpretations which are not yet effective for the current period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKAS 1, HKAS 34, HKFRS 1, HKFRS 7 and HK(IFRIC) – Int 13[1]
HKAS 12 (Amendments)	Recovery of underlying assets[3]
HKAS 24 (as revised in 2009)	Related party disclosures[1]
HKFRS 1 (Amendments)	Replacement of "fixed dates" for certain exceptions with "the date of transition to HKFRSs"[2]
HKFRS 1 (Amendments)	Additional exemption for entities ceasing to suffer from severe hyperinflation[2]
HKFRS 7 (Amendments)	Enhancing disclosures – transfers of financial assets[2]
HKFRS 9	Financial instruments[4]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a minimum funding requirement[1]

1 Effective for annual periods beginning on or after 1 January 2011
2 Effective for annual periods beginning on or after 1 July 2011
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of these 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

The Group has adopted HKFRS 8, Operating Segments which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers for the purposes of allocating resources to segments and assessing their performance.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers 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 makers only review the Group's business from a product perspective, instead of a geographic perspective. By reviewing from a product perspective, the management of the Company assesses the performance from sales of yarn and garment fabrics.

The chief operating decision makers assess 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 2010			
Total sales	**173,104**	**225,683**	**398,787**
Inter-segment sales	**(23,049)**	**(3,861)**	**(26,910)**
Turnover (from external customers)	**150,055**	**221,822**	**371,877**
Segment results	**11,930**	**774**	**12,704**
Income tax expense			**(890)**
Central administration costs			**(2,410)**
Profit for the period			**(9,404)**
Depreciation and amortisation	**(17,369)**	**(14,159)**	**(31,528)**

3. SEGMENT INFORMATION *(Continued)*

	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)

4. FINANCE COSTS

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**20,068**	8,414
– Finance leases	**2,763**	1,274
	22,831	9,688

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**862**	5,614
Deferred tax	**28**	1,160
	890	6,774

5. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at 16.5% (1.7.2009 to 31.12.2009: 16.5%) of the estimated assessable profit for the period. 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 periods ended 31 December 2009 and 2010.

Under the Law of the PRC on EIT (the "EIT Law") and implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Deferred taxation of HK$28,000 (1.7.2009 to 31.12.2009: HK$1,160,000) 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 2010 attributable to the Group under the EIT 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	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**31,445**	30,576
Release of prepaid lease payments	**1,863**	1,313
Interest income	**(990)**	(1,006)

7. DIVIDEND

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2009: Nil).

8. EARNINGS PER SHARE

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

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**9,404**	1,463
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,040,602**	1,040,602

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices for the Company's shares for the periods ended 31 December 2009 and 2010.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$24,615,000 (1.7.2009 to 31.12.2009: HK$66,481,000) on the construction of and addition in 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 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 presented based on the invoice date at the end of the reporting period:

	31.12.2010	30.6.2010
	HK$'000	HK$'000
	(unaudited)	(audited)
0 – 60 days	**62,132**	77,685
61 – 90 days	**427**	2,974
Over 90 days	**1,787**	20,759
Trade receivables	**64,346**	101,418
Other receivables	**302,575**	126,287
Bills receivables	**1,620**	5,023
	368,541	232,728

11. TRADE AND OTHER PAYABLES

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

	31.12.2010 HK$'000 (unaudited)	30.6.2010 HK$'000 (audited)
0 – 60 days	**179,614**	137,936
61 – 90 days	**60,435**	24,807
Over 90 days	**146,734**	18,068
Trade and bills payables	**386,783**	180,811
Other payables	**41,529**	52,075
	428,312	232,886

12. SECURED BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK$450,471,000 (1.7.2009 to 31.12.2009: HK$253,182,000). The loans carried interests at fixed and floating rates and are repayable within a year. The proceeds were used for general working capital purposes and to finance the purchase 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 2009, 1 July 2010 and 31 December 2010		
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 the directors and employees of the Group outstanding during the period are as follows:

	Number of share options
Outstanding at 1 July 2009	104,050,000
Cancelled during the period	(85,450,000)
Outstanding at 31 December 2009, 30 June 2010 and 31 December 2010	18,600,000

There was no movement for the period ended 31 December 2010. The options cancelled during the period ended 31 December 2009 entitled 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 condensed 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

	31.12.2010 HK$'000 (unaudited)	30.6.2010 HK$'000 (audited)
Capital expenditures contracted for but not provided in the condensed consolidated financial statements in respect of:		
– purchase of office equipment	**469**	–
– construction of buildings	**8,235**	–

At 31 December 2010, the Group had commitments for future research costs of HK$574,000 (2009: HK$724,000) 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 sales of cotton yarn, 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, grey fabric weaving, garment fabric 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 grey 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 the year of 2008. 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 all production lines was commenced by the end of the Period. Most of the final products, yarn for weaving into pure cotton knit fabrics, were sold to external customers while the remaining were retained for internal use during the Period. With the international standard dyeing machinery and equipment installed in the plant in Changle city, the PRC, the Group would be able to integrate its production process vertically, from yarn spinning, grey fabric weaving to garment fabric dyeing.

In view of implementing the Group's plan in expanding sales markets, the Group participated in the textile fair held in Shanghai, the PRC, during the Period so as to promote and sell its products to more local and overseas customers.

Turnover

For the Period, the Group recorded a turnover of approximately HK$371,877,000 (2009: HK$377,615,000), approximately 1.5% less than that of 2009. Though, the turnover in both periods was maintained at the similar level, the total sales volume of the plant in Changle city, the PRC, was indeed reduced by approximately one-fourth when compared with that of 2009. That decrease was mainly a result of harsh environmental policy executed by the Changle municipal government during the Period. On the contrary, the augment in commercial sales of the yarn of the plant in Zhengzhou city, the PRC, as a result of full production capacity was achieved, which in turn, surged relevant turnover by approximately 136.0% when compared with that of 2009.

Gross Profit

The gross profit margin of the Group of approximately 15.7% in the Period increased in some extents compared with that of 2009 of approximately 10.2%. It was mainly due to the augment in commercial sales of the yarn as a result of full production capacity achieved during the Period.

Profit for the Period

The Group's profit for the Period was approximately HK$9,404,000 (2009: HK$1,463,000), approximately 542.8% more than that in 2009. Net profit margin for the Period was approximately 2.5% (2009: 0.4%) and the rise was mainly due to the augment in commercial sales of the yarn as a result of full production capacity achieved during the Period.

Other income

The Group's other income for the Period was approximately HK$6,204,000 (2009: HK$9,087,000). The decrease in the Period was attributable to the provision of a subsidy by the Zhengzhou municipal government in 2009 that was used to fund at the preliminary stage of the plant construction.

Expenses

Administrative expenses amounted to approximately HK$19,445,000 (2009: HK$17,350,000), representing approximately 5.2% (2009: 4.6%) of turnover for the Period. Administrative expenses increased by approximately 12.1% when compared with that of 2009. It was mainly due to increased administrative expenses incurred by the plant in Zhengzhou city, the PRC, as a result of its operation of all production lines throughout the Period.

Selling and distribution costs amounted to approximately HK$10,710,000 (2009: HK$10,982,000), representing approximately 2.9% (2009: 2.9%) of turnover for the Period. The selling and distribution costs in both periods were maintained at the same level since the sales and marketing network was already set up in 2009.

Other expenses amounted to approximately HK$1,346,000 (2009: HK$1,334,000), representing approximately 0.4% (2009: 0.4%) of turnover for the Period and was maintained at the same level as previous period.

Finance costs amounted to approximately HK$22,831,000 (2009: HK$9,688,000), representing approximately 6.1% (2009: 2.6%) of turnover for the Period. The significant increase was mainly due to more bank loans undertaken by the Group for the purchase of machinery and equipment and for the operation of the plant in Zhengzhou city, the PRC, during the Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2009: 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 Board believes that the operating environment of PRC 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 installation and trial run of the fourth production line for spinning yarn at the plant in Zhengzhou city, the PRC, was completed during the Period. The yarn production capacity was entirely utilized at the end of the Period which 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, more capital investment will be concentrated in expanding the capacity for spinning yarn in view of the higher market potential and more profitable of the yarn market.

As a global trend, the importance of corporate environmental and social responsibility and accountability has long been recognized by many governments, such as the PRC government, therefore more stringent environmental control policies and procedures would be expected to impose in the future on the plant in Changle city, the PRC, that produces and sells dyed finished woven and cotton fabrics; which in turn surges the cost of production. Yet the Company has long been closely monitored the dyeing process since its set up and ensured itself to comply with relevant environmental rules and regulations.

Looking ahead, the Group will continue to capture opportunities for expansion and modification 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 2010, the Group had net current assets and total assets less current liabilities of approximately HK$181,159,000 (30 June 2010: HK$156,172,000) and HK$915,427,000 (30 June 2010: HK$884,888,000), 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 2010, the Group had cash and bank deposits of approximately HK$713,360,000 (30 June 2010: HK$479,433,000). The current ratio of the Group was approximately 117.6% (30 June 2010: 123.6%).

Shareholders' fund of the Group as at 31 December 2010 was approximately HK$868,673,000 (30 June 2010: HK$829,746,000). As at 31 December 2010, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB489,700,000 were equivalent to HK$576,118,000 (30 June 2010: HK$393,750,000); and obligations under finance leases for machinery and equipment of approximately HK$59,671,000 (30 June 2010: HK$73,191,000), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 73.2% (30 June 2010: 56.3%).

The financial position of the Group has been moderate throughout the Period and the Group has adequate resources in meeting its short term and long term obligations.

FINANCING

As at 31 December 2010, the total banking facilities of the Group amounted to about HK$937,471,000 (30 June 2010: HK$611,364,000), of which, approximately HK$801,632,000 (30 June 2010: HK$528,200,000) 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 2010, 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 2010, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$336,191,000 (30 June 2010: HK$329,372,000) and approximately HK$133,856,000 (30 June 2010: HK$46,412,000), respectively, and certain inventory with value of approximately HK$10,000,000 (30 June 2010: HK$6,818,000) were all pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$171,449,000 (30 June 2010: HK$52,317,000).

As at 31 December 2010, the carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$184,112,000 (30 June 2010: HK$170,313,000).

STAFF POLICY

The Group had 2,284 employees altogether in the PRC and Hong Kong as at 31 December 2010. 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, unemployment insurance, medical insurance, housing provident fund and insurance for work-related injury 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 (Cap. 485 of the Laws of Hong Kong), for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

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

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, 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 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 ("BVI"), 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 BVI, 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 directors	Capacity	Number of share options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	1,900,000	1,900,000
Mr. Chen Jinqing	Held by spouse *(Note)*	2,400,000	2,400,000

Note: Mr. Chen Jinqing, the youngest brother of Mr. Chen Jinyan and Mr. Chen Dong, is deemed to be interested in 2,400,000 options to acquire shares of the Company, being the interest held beneficially by his spouse.

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 2010.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Share options" above, 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 2010, 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 2010.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the consolidated financial statements of the Company's 2010 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 1.7.2010	Granted during the Period	Exercised during the Period	Cancelled during the Period	Outstanding at 31.12.2010
Directors								
Mr. Chen Jinyan	10.7.2008	1.8.2008 to 31.7.2018	0.358	1,900,000	–	–	–	1,900,000
Mr. Chen Jinqing *(Note)*	10.7.2008	1.8.2008 to 31.7.2018	0.358	2,400,000	–	–	–	2,400,000
				4,300,000	–	–	–	4,300,000
Employees	10.7.2008	1.8.2008 to 31.7.2018	0.358	14,300,000	–	–	–	14,300,000
Granted Total				18,600,000	–	–	–	18,600,000

Note: Mr. Chen Jinqing, the youngest brother of Mr. Chen Jinyan and Mr. Chen Dong, is deemed to be interested in 2,400,000 options to acquire shares of the Company, being the interest held beneficially by his spouse.

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 Group has adopted the Model Code as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company (the "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 comprised 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

25 February 2011