錦藝紡織科技國際有限公司

# ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 565)

## Annual Report 2011

# CONTENT

# 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
Bank of Zhengzhou
China Construction Bank
Fujian Haixia Bank
Industrial and Commercial Bank of China
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 Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1 – 1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

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

# CHAIRMAN’S STATEMENT

On behalf of the board of directors (the “Board”) of Art Textile Technology International Company Limited (“Art Textile” or the “Company”) (錦藝紡織科技國際有限公司) and its subsidiaries (together, the “Group”), I am pleased to report that the Group recorded a turnover of HK$902,658,000 (2010: HK$801,646,000) and a profit for the year of HK$7,338,000 (2010: HK$5,551,000).

## BUSINESS REVIEW

The Group produces high quality and extensive varieties of garment fabrics for making down wear and sports wear, household products and men’s and women’s fashions by state-of-the-art dyeing machinery and equipment installed in the plant in Changle city of Fujian Province of the People’s Republic of China (the “PRC”). Together with another plant for spinning premium yarn by hi-technology machinery and equipment in Zhengzhou city of Henan Province, the Group is able to expand its production capacity, enhance its market position and profitability, monitor its quality control and production costs closely and shorten the production cycle.

All production lines installed in the plant in Zhengzhou city performed full commercial production throughout the financial year; consequently, the turnover increased by 12.6% when compared with that in 2010. On the contrary, though the textile industry in the PRC grows continuously and the average household income rises steadily, the turnover of the plant in Changle city decreased in certain extent due to a rigorous restraint over the dyeing industry executed by the relevant PRC regional authority. Furthermore, despite of the recovery of the global economy, the Group had to face some great challenges during the year ended 30 June 2011, such as surge in oil and raw material prices, constant growth in labour costs and increasing market competition. Nevertheless, by leveraging on its established strengths, experience and foresight, Art Textile continues to grasp opportunities to increase its market demand by improving the quality of existing products and developing new products, to explore new markets and to apply stringent cost control policy. These positive outcomes will be gradually reflected in future results.

Armed with the close connection with its distribution agents and customers as well as the operation of the sales outlets in major textile markets in the PRC; such as Guangzhou and Shaoxing, the Group maintains its well-established distribution network by strengthening the present sales and marketing team in order to further promote the Group’s products and boost customer loyalty to the brand name of “ ”. In line with the Group’s efforts in expanding overseas markets, the Group carries on to promote and sell its products to overseas customers from the Middle East, North America and Europe through participation in various textile fairs and exhibitions.

Apart from engaging in the production of fashionable apparel targeting at mid to high-end market, the Group continues to devote in the research and development of cotton and functional sports wear fabrics and new products in order to meet the ever-changing needs and development trend of the textile and garment markets, such as the continuous increase in the demand of sports wear in the PRC as a consequence of Universiade Shenzhen 2011. The Group has been endeavour to capture this opportunity to increase its market share by constantly researching and developing a series of functional sports wear.

# CHAIRMAN'S STATEMENT

In order to prevent pollution to the environment through fabric dyeing, the Group places significant emphasis on environmental protection and operates a self-owned sewage treatment station in the plant in Changle city to process and recycle sewage generated throughout the production process. Moreover, the plant in Zhengzhou city installs a sound insulation system to prevent making any noise pollution to the environment. The sewage treatment station and the sound insulation system have already been approved by the relevant environmental protection authorities. The Group has not been in breach of the relevant environmental protection laws and regulations since its establishment.

Looking forward, the business growth of the Group is expected to accelerate in the future. We will maintain growth through vertical and horizontal integration and by cooperating with business partners. We will continue to organise resources to set up new and modern machineries, reinforce the product development team, increase the variety of products, boost market promotion and swell distribution network in the PRC and overseas markets.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to present my heartfelt thanks to the customers, suppliers, bankers, business partners and shareholders of the Company for their continuous support and trust and also to each staff member of the Group for their diligent work. The achievement of the Group would not be possible without the contribution of each of the staff member and their dedication.

**Chen Jinyan**
*Chairman*

Hong Kong, 23 September 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of yarn and garment 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 trial weaving, garment fabric dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's yarn is used for weaving into pure cotton knit fabrics and considerably sold to external customers and the remaining for internal use and the Group's fabrics are used for manufacturing down wear, sports wear, household products such as sofa and curtain and men's and women's fashions.

For the purpose of maintaining steadier supply and better quality control of grey fabrics for the dyeing process, the Group designates some suppliers to weave these fabrics based on the samples researched and developed by it. In addition, the existing advance yarn spinning and fabric dyeing machinery and equipment enable the Group to seize the demand for pure cotton knit fabrics from current and new customers and enlarge the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

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 current year so as to promote and sell its products to more local and overseas customers.

### Turnover

For the financial year ended 30 June 2011, the Group recorded a turnover of approximately HK$902,658,000 (2010: HK$801,646,000), approximately 12.6% more than that in 2010. The increase in turnover was attributable to the full production capacity achieved at the plant in Zhengzhou city during the year.

### Gross Profit

The gross profit margin of the Group of approximately 13.9% in the current year slightly increased when compared with that in 2010 of approximately 12.8%. It was mainly due to the augment in commercial sales of the yarn as a result of full production capacity achieved during the year.

### Profit for the Year

For the financial year ended 30 June 2011, the Group's profit was approximately HK$7,338,000 (2010: HK$5,551,000), approximately 32.2% more than that in 2010. Net profit margin for the year ended 30 June 2011 of approximately 0.8% (2010: 0.7%) slightly increased when compared with that in 2010 as a result of the complete function of the plant in Zhengzhou city during the year.

### Other income

The Group's other income for the financial year ended 30 June 2011 was approximately HK$7,925,000 (2010: HK$6,396,000), approximately 23.9% more than that in 2010. Such increase in the current year was attributable from the provision of a grant by the PRC regional government.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Expenses**

Administrative expenses amounted to approximately HK$42,774,000 (2010: HK$34,589,000), representing approximately 4.7% (2010: 4.3%) of turnover for the year ended 30 June 2011. Administrative expenses increased by approximately 23.7% when compared with that of 2010. It was due to increased administrative expenses incurred by the plant in Zhengzhou city as a result of its operation of all production lines throughout the current year.

Selling and distribution costs amounted to approximately HK$22,475,000 (2010: HK$22,610,000), representing approximately 2.5% (2010: 2.8%) of turnover for the year ended 30 June 2011 and were maintained at a similar level as that of 2010.

Other expenses amounted to approximately HK$2,993,000 (2010: HK$2,480,000), representing approximately 0.3% (2010: 0.3%) of turnover for the year ended 30 June 2011. The increase was due to more allowance for doubtful debts raised during the year.

Finance costs amounted to approximately HK$53,017,000 (2010: HK$24,748,000), representing approximately 5.9% (2010: 3.1%) of turnover for the year ended 30 June 2011. The substantial increase was due to more bank loans and bills undertaken by the Group for the operation of both plants in Changle city and Zhengzhou city during the year.

**Dividend**

The Board does not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: Nil).

## FUTURE PLANS AND PROSPECTS

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 at the same time strengthening its current sales and marketing teams. The Group also sustains efforts in research and development of new products and improvement of existing products in order to meet the needs of dynamic textile and garment markets.

All four production lines of the plant for spinning yarn in Zhengzhou city performed full commercial production during the year ended 30 June 2011. The full production capacity of these production lines is approximately 16,000 tons per annum. Good quality of cotton is used for spinning premium yarn which is targeted at the mid to high-end markets. Majority of yarn is sold to external customers while the remaining is for internal use. Ultimately, the yarn for weaving into pure cotton knit fabrics spun at the Zhengzhou plant are to complete its dyeing process in the Changle plant. The above processes will enable the Group to further develop the vertical integration of its production.

The future development of the textile industry in the PRC is still expected to face significant challenges and many uncertainties in the business environment, such as rising raw material costs, the intensifying international trade protectionism and continuous appreciation of RMB. 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had net current assets and total assets less current liabilities of approximately HK$201,519,000 (2010: HK$156,172,000) and HK$924,433,000 (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 30 June 2011, the Group had cash and bank deposits of approximately HK$1,185,102,000 (2010: HK$479,433,000). The current ratio of the Group was approximately 112.9% (2010: 123.6%).

Shareholders' fund of the Group as at 30 June 2011 was approximately HK$886,894,000 (2010: HK$829,746,000). As at 30 June 2011, the total bank borrowings was the Group, repayable within 12 months from the end of the reporting period, denominated in RMB661,100,000 were equivalent to HK$796,506,000 (2010: HK$393,750,000); and obligations under finance leases for machinery and equipment was approximately HK$46,346,000 (2010: HK$73,191,000), altogether giving a gross debt gearing ratio (i.e. total borrowings/shareholders' fund) of approximately 95.0% (2010: 56.3%).

In view of the future shrinkage of the bank funding as a result of more stringent PRC central government economic policy, the Group maintains significant amount of working capital on hand in order to preserve its moderate financial position throughout the year and in future. The Group anticipates that adequate resources would be obtained from its growing business operations in meeting its short term and long term obligations.

## FINANCING

As at 30 June 2011, the total banking facilities of the Group amounted to about HK$1,418,051,000 (2010: HK$611,364,000), of which, approximately HK$1,161,642,000 (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 30 June 2011, the share capital of the Company comprises ordinary shares only.

## FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, 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 monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHARGE ON GROUP'S ASSETS

As at 30 June 2011, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$335,583,000 (2010: HK$329,372,000) and approximately HK$127,524,000 (2010: HK$46,412,000), respectively, were all pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$337,936,000 (2010: HK$52,317,000).

As at 30 June 2011, the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$125,048,000 (2010: HK$170,313,000).

As at 30 June 2010, certain inventories with carrying values of approximately HK$6,818,000 were pledged as securities for bank borrowings.

## CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$23,930,000 (2010: HK$126,340,000) in property, plant and equipment, of which 29.7% (2010: 93.3%) was used for purchase of plant and machinery, 63.3% (2010: 4.6%) for construction of auxiliary facilities, and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2011, the Group had capital commitments of approximately HK$3,614,000 (2010: Nil) in property, plant and equipment. The capital commitments were funded by internally generated resources, finance leases and bank loans.

## STAFF POLICY

The Group had 1,445 employees altogether in the PRC and Hong Kong as at 30 June 2011. 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 employees' compensation 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 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 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

## EXECUTIVE DIRECTORS

**Mr. Chen Jinyan (陳錦艷)**, aged 42, is the Chairman of the Company and is responsible for the Group's operation and product development. Mr. Chen has over 20 years of experience in the textile industry. Mr. Chen obtained a diploma in the design of textile products from the textile engineering faculty of Jiangxi Textile Industry Academy (江西紡織工業學院). He is the elder brother of Mr. Chen Dong. He is the vice president and authorized representative of Textile Engineering Society of Fujian Province (福建省紡織工程學會) since 2006.

**Mr. Chen Dong (陳錦東)**, aged 40, is a Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 17 years of experience in the textile industry. Mr. Chen obtained a diploma in industrial and financial accounting from Fuzhou Industrial Academy (福州工業學院). He is the younger brother of Mr. Chen Jinyan.

**Mr. Chen Jinqing (陳錦慶)**, aged 35, is an Executive Director responsible for sales and marketing of the Group, especially promoting the Group's new products into local and overseas markets by further establishing the Group's distribution network. Mr. Chen has over 10 years of experience in the textile industry. He is the younger brother of both Mr. Chen Jinyan and Mr. Chen Dong.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lo Kin Chung (勞健忠)**, aged 50, has been an Independent Non-executive Director since September 2004. He holds a Bachelor of Business degree from the University of Southern Queensland in Australia and a Master of Business Administration from the University of Surrey in the United Kingdom. He has over 21 years of experience in the accounting field. Mr. Lo is a Certified Public Accountant in Hong Kong and a certified practising accountant of CPA Australia.

**Mr. Huang Yongfeng (黃勇峰)**, aged 41, has been an Independent Non-executive Director since June 2003. Mr. Huang was educated at the Power Engineering Department of Dalian University of Technology (大連理工大學) and obtained his degree in internal combustion engineering. He has also obtained a Master degree in Business Administration from National University of Singapore. He is currently the General Manager of Chongqing Mondy Human Resource Consulting Co., Ltd (重慶蒙迪人才諮詢有限公司).

**Mr. Yu Zhongming (俞忠明)**, aged 76, has been an Independent Non-executive Director since September 2004. Mr. Yu was educated at the Shanghai Hua Dong Textile College (上海華東紡織工學院) and obtained a diploma from the textile engineering faculty. Mr. Yu has over 48 years of experience in the textile industry. He has been the vice president of Textile Engineering Society of Fujian Province (福建省紡織工程學會) since 1996.

# DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2011 are set out in note 32 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2011 are set out in the consolidated statement of comprehensive income on page 23.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: Nil).

## PROPERTY, PLANT AND EQUIPMENT

During the year, construction in progress of HK$13,860,000 was completed and transferred to buildings and plant and machinery. The Group also acquired plant and machinery at a cost of HK$5,610,000. Details of other movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 30 June 2011 comprised the retained profits of HK$26,188,000 (2010: HK$30,231,000).

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

**Executive directors:**
Mr. Chen Jinyan
Mr. Chen Dong
Mr. Chen Jinqing

**Independent non-executive directors:**
Mr. Huang Yongfeng
Mr. Yu Zhongming
Mr. Lo Kin Chung

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Messrs. Lo Kin Chung and Chen Dong retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# DIRECTORS' REPORT

## DIRECTORS' SERVICE CONTRACTS

Mr. Chen Dong was re-appointed by the board of directors on 1 September 2011 to continue to act as an executive director of the Company for a term of one year after the expiration of his service agreement on 31 August 2011. Mr. Chen Jinqing was re-appointed by the board of directors on 1 February 2011 to act as an executive director of the Company for a term of one year until the expiration of his service agreement on 31 January 2012. The service agreement for Mr. Chen Jinyan expired on 31 August 2010 and he was re-appointed by the board of directors on 1 September 2010 to continue to act as an executive director of the Company for a term of two years. All of the above service agreements can be terminated by either party by giving three months' prior written notice.

Each of the independent non-executive directors entered into service agreements with the Company for a term of one year and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2011, 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 directors | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| 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 "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.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

**Long positions** *(Continued)*

***(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 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 30 June 2011.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, 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 | Percentage of the issued share capital of the Company |
|---|---|---|---|
| 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 30 June 2011.

# DIRECTORS' REPORT

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the consolidated financial statements.

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

| Grantee | Date of grant | Exercise period | Exercise price HK$ | Outstanding at 1.7.2010 | Granted during the year | Cancelled during the year | Exercised during the year | Outstanding at 30.6.2011 |
|---|---|---|---|---|---|---|---|---|
| **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 shares options granted to his spouse on 10 July 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.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the independent non-executive directors are independent.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 27% (2010: 25%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 7% (2010: 8%) of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 42% (2010: 52%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 14% (2010: 16%) of the Group's total purchases.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

# DIRECTORS' REPORT

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

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 30 June 2011.

## AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Dominic K.F. Chan & Co. as auditor of the Company.

On behalf of the Board

**Chen Jinyan**
*CHAIRMAN*

Hong Kong
23 September 2011

# REPORT ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Group. During the year ended 30 June 2011, the Group applied the principles and met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules 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 year ended 30 June 2011.

## BOARD OF DIRECTORS (THE "BOARD")

During the year under review, the composition of the Board, with at least one-third of which are independent non-executive Directors, was as follows:

| | |
|---|---|
| Mr. Chen Jinyan | *(Chairman, Executive Director)* |
| Mr. Chen Dong | *(Chief Executive Officer, Executive Director)* |
| Mr. Chen Jinqing | *(Executive Director)* |
| Mr. Lo Kin Chung | *(Independent Non-executive director)* |
| Mr. Huang Yongfeng | *(Independent Non-executive Director)* |
| Mr. Yu Zhongming | *(Independent Non-executive Director)* |

Each executive Director (the "Executive Director") has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Each independent non-executive Director (the "Independent Non-executive Director") has confirmed his independence with the Company and the Company considers the Independent Non-executive Directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other except that Mr. Chen Jinyan is the eldest brother of Mr. Chen Dong and Mr. Chen Jinqing.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company and its shareholders taken as a whole. During the financial year ended 30 June 2011, six Board meetings were held and the attendance of all Directors at the Board meetings was as follows:

| **Name of Directors** | **Attendance** |
|---|---|
| Mr. Chen Jinyan | 6/6 |
| Mr. Chen Dong | 6/6 |
| Mr. Chen Jinqing | 6/6 |
| Mr. Lo Kin Chung | 6/6 |
| Mr. Huang Yongfeng | 6/6 |
| Mr. Yu Zhongming | 6/6 |

# REPORT ON CORPORATE GOVERNANCE PRACTICES

## BOARD OF DIRECTORS (THE "BOARD") *(Continued)*

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

- the interim review fee for the period ended 31 December 2010 and the annual audit fee for the year ended 30 June 2011;
- declaration, recommendation and payment of interim and final dividends;
- the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and their training programmes and budget;
- publication of interim and annual results announcements; and
- the internal control review report of the Company.

## OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as market expansion and product development while the senior management is responsible for execution of the Board's decisions in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is responsible for the preparation of financial statements by selecting and applying appropriate accounting policies. It is the responsibility of the auditor to form an independent opinion on those statements and to report their opinion to the Group; whether the financial statements give a true and fair view of the state of affairs of the Group as at the end of the reporting period and of the statement of comprehensive income and cash flows of the Group for each financial year, as well as proper preparation in accordance with the disclosure requirements of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The Board is also responsible for the Group's system of internal control and reviewing its effectiveness. An external professional party conducted review of the effectiveness of the Group's system of internal control. The audit committee of the Board reviewed the findings and opinion of the external professional party on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2011, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

In addition, the Board reviews the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget. The audit committee also reviewed and was satisfied with the adequacy of the staffing of the financial reporting functions.

## DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Dong who is the younger brother of Mr. Chen Jinyan. The duties of the Chairman include:

(a) to ensure all Directors are properly briefed on issues arising at Board meetings;

# REPORT ON CORPORATE GOVERNANCE PRACTICES

## DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER *(Continued)*

(b) to ensure all Directors receive adequate information, which must be complete and reliable, in a timely manner;

(c) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website announcements, circulars, interim and annual reports and holding of annual general meeting etc.;

(d) to ensure that good corporate governance practices and procedures are established; and

(e) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include:

(a) to be responsible for the day-to-day management of the Group's business;

(b) to be responsible for the performance of the Group and the implementation of the Board's strategy and policies;

(c) to maintain an effective system of internal control;

(d) to ensure that proper financial records and accounts are kept; and

(e) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.

## COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties had been discussed and approved in the relevant Board meeting approving their establishments.

## AUDIT COMMITTEE

With specific written terms of reference, the audit committee (the "AC") comprises three members, all being Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhongming. Mr. Lo Kin Chung is a Certified Public Accountant and the chairman of the AC.

The principal role and function of the AC are:

(a) to recommend the Board on the appointment, reappointment and removal of external auditors, as well as to approve the remuneration and terms of engagement of the external auditors;

(b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports;

(c) to review and make recommendations of the Group's financial control, internal control and risk management system;

(d) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system; and

(e) to review the Group's financial and accounting policies and practices.

# REPORT ON CORPORATE GOVERNANCE PRACTICES

## AUDIT COMMITTEE *(Continued)*

During the financial year ended 30 June 2011, six AC meetings were held and the attendance of its members was as follows:

| Name of members | Attendance |
|---|---|
| Mr. Lo Kin Chung | 6/6 |
| Mr. Huang Yongfeng | 6/6 |
| Mr. Yu Zhongming | 6/6 |

The following is a summary of the work performed by the AC during the year ended 30 June 2011 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;

- assessed the risk environment, reviewed internal control procedure manual of the Group and auditor's findings and opinion on the Group's system of internal control and considered that the internal control system is effective and adequate;

- reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget and was satisfied with the adequacy;

- reviewed external auditor's significant audit matters; and

- considered and approved the annual audit fee and interim review fee.

The chairman of the AC will report the findings and recommendations of the AC to the Board after each meeting. The AC had discussed with the auditor regarding the annual audit for the year ended 30 June 2010 and the interim review for the period ended 31 December 2010 before the Board meeting.

The Group's audited consolidated financial statements for the year ended 30 June 2011 have been reviewed by the AC, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The AC considered that the existing proposed terms in relation to the appointment of the Group's external auditors are fair and reasonable.

# REPORT ON CORPORATE GOVERNANCE PRACTICES

## REMUNERATION COMMITTEE

With specific written terms of reference, all members of the remuneration committee of the Company (the "RC") are Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhongming. Mr. Lo Kin Chung is the chairman of the RC.

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, determining their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his associate(s) is involved in deciding his own remuneration.

The chairman of the RC will report the findings and recommendations of the RC to the Board after each meeting. During the financial year ended 30 June 2011, there was one RC meeting and the attendance of its members was as follows:

| **Name of members** | **Attendance** |
|---|---|
| Mr. Lo Kin Chung | 1/1 |
| Mr. Huang Yongfeng | 1/1 |
| Mr. Yu Zhongming | 1/1 |

The work performed by the RC during the year ended 30 June 2011 included the review of the remuneration policy for this financial year and the remuneration of Executive Directors.

## NOMINATION COMMITTEE

With specific written terms of reference, all members of the nomination committee of the Company (the "NC") are Independent Non-executive Directors, namely, Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhongming. Mr. Lo Kin Chung is the chairman of the NC.

The role and function of the NC include:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to make recommendations to the Board on relevant matters relate to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer of the Company; and

(d) to assess the independence of Independent Non-executive Directors.

# REPORT ON CORPORATE GOVERNANCE PRACTICES

## NOMINATION COMMITTEE *(Continued)*

The chairman of the NC will report the findings and recommendations of the NC to the Board after each meeting. During the financial year ended 30 June 2011, there was one NC meeting and the attendance of its members was as follows:

| Name of members | Attendance |
|---|---|
| Mr. Lo Kin Chung | 1/1 |
| Mr. Huang Yongfeng | 1/1 |
| Mr. Yu Zhongming | 1/1 |

The NC recommended that one Executive Director, Mr. Chen Jinqing and one Independent Non-executive Director, Mr. Yu Zhongming, retiring by rotation at the annual general meeting held in November 2010, be re-elected. The NC made this recommendation for re-appointment based on their contributions to the Board. The Board accepted the NC's recommendation and accordingly, the Executive Director and the Independent Non-executive Director above offered themselves for re-election at the annual general meeting held in November 2010. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

## AUDITOR'S SERVICES

**(a) Audit service**

The fee for annual audit quoted by Dominic K.F. Chan & Co. ("DCC") had been reviewed by the Board and the AC. For the year ended 30 June 2011, the auditor's remuneration was HK$650,000.

**(b) Non-audit service**

The fee charged by DCC of interim review for the period ended 31 December 2010 was HK$200,000. DCC reviewed the interim financial statements and made a review conclusion.

## COMMUNICATION WITH SHAREHOLDERS

The Board uses annual general meetings to communicate with shareholders and encourages their participation. At the annual general meeting held in November 2010, the Chairman proposed a separate resolution in respect of each substantially separate issue and arranged a member of the AC and the auditor to answer questions at the meeting. The Company also provides extensive information in its annual reports, interim reports and announcements.

## VOTING BY POLL

The articles of association of the Company set out the procedures, requirements and circumstances where voting by poll is required. Pursuant to Rule 13.39 of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. At the commencement of the annual general meeting, the Chairman would explain such voting procedures. Poll voting has been adopted at the annual general meeting held in November 2010 in order to ensure that each share is entitled to one vote. The poll voting results is available on the websites of the Company and the Stock Exchange.

# INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the consolidated financial statements of Art Textile Technology International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 69, which comprise the consolidated statement of financial position as at 30 June 2011 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Dominic K.F. Chan & Co.,**
*Certified Public Accountants (Practising)*
Rooms 2105-06, 21/F.,
Office Tower, Langham Place,
8 Argyle Street, Mongkok,
Hong Kong
23 September 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30 June 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Turnover | | **902,658** | 801,646 |
| Cost of sales | | **(777,058)** | (699,181) |
| Gross profit | | **125,600** | 102,465 |
| Other income | *8* | **7,925** | 6,396 |
| Administrative expenses | | **(42,774)** | (34,589) |
| Selling and distribution costs | | **(22,475)** | (22,610) |
| Other expenses | | **(2,993)** | (2,480) |
| Finance costs | *9* | **(53,017)** | (24,748) |
| Profit before tax | | **12,266** | 24,434 |
| Income tax expense | *10* | **(4,928)** | (18,883) |
| Profit for the year | *11* | **7,338** | 5,551 |
| Other comprehensive expenses | | | |
| Exchange differences arising on translation | | **(580)** | – |
| Income tax relating to component of the comprehensive expenses | | **–** | – |
| Other comprehensive expenses for the year (net of tax) | | **(580)** | – |
| Total comprehensive income for the year | | **6,758** | 5,551 |
| EARNINGS PER SHARE | *14* | | |
| Basic (HK cents per share) | | **0.71** | 0.53 |
| Diluted (HK cents per share) | | **0.71** | 0.53 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **592,464** | 602,934 |
| Prepaid lease payments | 16 | **121,707** | 117,473 |
| Deposits for acquisition of plant and equipment | | **8,743** | 8,309 |
| | | **722,914** | 728,716 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | **204,825** | 104,642 |
| Trade and other receivables | 18 | **373,851** | 232,728 |
| Pledged bank deposits | 19 | **337,936** | 52,317 |
| Bank balances and cash | 20 | **847,166** | 427,116 |
| | | **1,763,778** | 816,803 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 21 | **740,158** | 232,886 |
| Tax liabilities | | **4,214** | 3,864 |
| Secured bank borrowings | 22 | **796,506** | 390,341 |
| Obligations under finance leases | 23 | **20,688** | 29,478 |
| Unsecured bank borrowings | 22 | **–** | 3,409 |
| Deferred income | 24 | **693** | 653 |
| | | **1,562,259** | 660,631 |
| **NET CURRENT ASSETS** | | **201,519** | 156,172 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **924,433** | 884,888 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | **10,406** | 10,406 |
| Share premium and reserves | | **876,488** | 819,340 |
| Equity attributable to owners of the Company | | **886,894** | 829,746 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance leases | | | |
| – due after one year | 23 | **25,658** | 43,713 |
| Deferred income | 24 | **3,464** | 3,921 |
| Deferred tax liabilities | 25 | **8,417** | 7,508 |
| | | **37,539** | 55,142 |
| | | **924,433** | 884,888 |

The consolidated financial statements on pages 23 to 69 were approved and authorised for issue by the Board of Directors on 23 September 2011 and are signed on its behalf by:

| | |
|---|---|
| **Chen Jinyan** | **Chen Dong** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 30 June 2011*

| | 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 year | – | – | – | – | – | – | 5,551 | 5,551 |
| Total comprehensive income for the year | – | – | – | – | – | – | 5,551 | 5,551 |
| Options cancelled | – | – | – | – | – | (7,751) | 7,751 | – |
| At 30 June 2010 and 1 July 2010 | 10,406 | 165,838 | 136 | 108,702 | 68,044 | 2,598 | 474,022 | 829,746 |
| Other comprehensive income | **–** | **–** | **–** | **49,810** | **–** | **–** | **–** | **49,810** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **7,338** | **7,338** |
| Total comprehensive income for the year | **–** | **–** | **–** | **49,810** | **–** | **–** | **7,338** | **57,148** |
| At 30 June 2011 | **10,406** | **165,838** | **136** | **158,512** | **68,044** | **2,598** | **481,360** | **886,894** |

The statutory reserve fund is a reserve required by the relevant laws of the PRC applicable to the Company's PRC subsidiaries. Appropriations to such reserve are made out of profit for the year as per statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective board of directors annually.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 30 June 2011*

| | NOTE | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit for the year | | **7,338** | 5,551 |
| Adjustments for: | | | |
| Income tax expense recognised in profit or loss | | **4,928** | 18,883 |
| Allowance for bad and doubtful debts | | **324** | 229 |
| Depreciation of property, plant and equipment | | **65,399** | 53,425 |
| Loss on disposal of subsidiaries | | **–** | 23 |
| Loss on disposal of property, plant and equipment | | **127** | 102 |
| Release of prepaid lease payments | | **2,800** | 2,627 |
| Finance costs recognised in profit or loss | | **53,017** | 24,748 |
| Interest income | | **(2,594)** | (2,040) |
| Government grant recognised in profit or loss | | **–** | (2,614) |
| Government grants deducted against depreciated assets | | **(693)** | (653) |
| Movements in working capital | | **130,646** | 100,281 |
| Increase in inventories | | **(93,879)** | (45,300) |
| Increase in trade and other receivables | | **(127,385)** | (133,215) |
| Increase in trade and other payables | | **493,243** | 26,169 |
| Cash from/(used in) operations | | **402,625** | (52,065) |
| Income tax paid | | **(4,354)** | (22,079) |
| NET CASH FROM/(USED IN) OPERATING ACTIVITIES | | **398,271** | (74,144) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | | **(23,864)** | (42,486) |
| Increase in pledged bank deposits | | **(282,467)** | (15,178) |
| Interest received | | **2,594** | 2,040 |
| Proceeds on disposal of property, plant and equipment | | **5,184** | 15 |
| Proceeds from government grants | | **–** | 7,841 |
| Net cash outflow on disposal of subsidiaries | 28 | **–** | (23) |
| NET CASH USED IN INVESTING ACTIVITIES | | **(298,553)** | (47,791) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank borrowings raised | | **927,228** | 435,795 |
| Repayment of bank borrowings | | **(548,193)** | (276,208) |
| Repayment of obligations under finance leases | | **(31,253)** | (20,592) |
| Interest paid on bank borrowings | | **(48,022)** | (22,318) |
| Interest paid on finance leases | | **(4,995)** | (2,430) |
| NET CASH FROM FINANCING ACTIVITIES | | **294,765** | 114,247 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **394,483** | (7,688) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | | **25,567** | – |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **427,116** | 434,804 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | **847,166** | 427,116 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Stock Exchange. Its immediate and ultimate holding company is Talent Crown, a private company incorporated in the BVI. Its ultimate controlling party is Mr. Chen Dong. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 32.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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 interpretations ("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 and ending on or after 30 June 2011.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HKAS 32 (Amendments) | Classification of Rights Issues |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time-Adopters |
| HKFRS 1 (Amendments) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HK(IFRIC)-INT 19 | Extinguishing Financial Liabilities with Equity Instruments |
| HK-INT 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(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.

| | |
|---|---|
| HKAS 24 (Revised) | Related Party Disclosures[1] |
| HK(IFRIC)-INT 14 (Amendments) | Prepayments of a Minimum Funding Requirement[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[2] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[2] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[3] |
| HKAS 1 (Amendments) | Presentation of the Items of Other Comprehensive Income[4] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[5] |
| HKFRS 11 | Joint Arrangements[5] |
| HKFRS 12 | Disclosure of Interests in Other Entities[5] |
| HKFRS 13 | Fair Value Measurement[5] |
| HKAS 19 | Employee Benefits[5] |
| HKAS 27 | Separate Financial Statements[5] |
| HKAS 28 | Investments in Associates and Joint Ventures[5] |

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 July 2012
5 Effective for annual periods beginning on or after 1 January 2013

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 titled Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending 30 June 2014 and that the application of the new Standard will have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair values model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 will have no significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 24 titled Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance of the Laws of Hong Kong.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. History cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related tax.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost include professional fee and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, expect where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan received in periods beginning on or after 1 January 2009 at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan on initial recognition.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than HKD are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 July 2009 are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity, respectively.

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets*** *(Continued)*

*Impairment of financial assets (Continued)*

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial liabilities and equity*** *(Continued)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities (including trade and other payables, secured and unsecured bank borrowings and obligations under finance leases) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Equity-settled share-based payment transactions**

***Share options granted and vested prior to 1 July 2005***

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Equity-settled share-based payment transactions** *(Continued)*

***Share options granted after 7 November 2002 and vested on or after 1 July 2005***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expense in full at grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

***Share options granted by an acquiree to its employees in an equity-settled share-based payment arrangement***

When share options in an equity-settled share-based payment transaction (acquiree awards) are replaced by share options of the Company or its subsidiaries (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with HKFRS 2 Share-based Payment ("market-based measure") at the acquisition date.

The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with HKFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Equity-settled share-based payment transactions** *(Continued)*

***Share options granted by an acquiree to its employees in an equity-settled share-based payment arrangement*** *(Continued)*

At the acquisition date, when the outstanding share options held by the employees of an acquiree are not exchanged for share options of the Company and its subsidiaries, the share options granted by the acquiree are measured at their market-based measure at the acquisition date. If those share options have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if those share options have not vested by the acquisition date, the market-based measure of the unvested share options is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of those share options. The balance is recognised as remuneration cost for post-combination service.

**Impairment losses**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Provision**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Related parties**

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

**Estimated impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2011, the carrying amount of trade receivables is HK$110,584,000 (2010: HK$101,418,000).

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 22, obligations under finance leases in note 23 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables: | | |
| Financial assets included in trade and other receivables | **117,760** | 102,988 |
| Pledged bank deposits | **337,936** | 52,317 |
| Bank balances and cash | **847,166** | 427,116 |
| | **1,302,862** | 582,421 |
| **Financial liabilities** | | |
| Other financial liabilities at amortised cost: | | |
| Trade and other payables | **740,158** | 232,886 |
| Secured bank borrowings | **796,506** | 390,341 |
| Obligations under finance leases | **46,346** | 73,191 |
| Unsecured bank borrowings | **–** | 3,409 |
| | **1,583,010** | 699,827 |

### (b) Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, secured bank borrowings, unsecured bank borrowings and obligations under finance leases. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall policies remain unchanged from prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and polices *(Continued)*

***Market risks***

*(i) Currency risk*

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

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

Sensitivity analysis

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

The following table details the group entities' sensitivity to a 5% (2010: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2010: 5%) change in foreign currency rates.

The sensitivity analysis includes USD and HKD denominated trade and other receivables and bank balances, as appropriate. A positive or negative number below indicates an increase or a decrease in post-tax profit where RMB strengthen 5% (2010: 5%) against the relevant currency. For a 5% (2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

| | **HKD Impact** *(note i)* | | **USD Impact** *(note i)* | | **EUR Impact** *(note ii)* | |
|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Profit or loss | **(101)** | (45) | **(206)** | (187) | **–** | 550 |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and polices *(Continued)*

***Market risks*** *(Continued)*

*(ii) Interest rate risk*

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

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

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

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period carried at floating market interest rate. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point (2010: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2010: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 30 June 2011 would decrease/increase by HK$2,722,000 (2010: decrease/increase by HK$983,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

*(iii) Other price risk*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and polices *(Continued)*

***Credit risk***

As at 30 June 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has a number of counterparties and customers. However, the Group's credit risk is concentrated on certain major customers. At 30 June 2011, the five largest receivable balances accounted for approximately 65% (2010: 44%) of the Group's total receivable balances. However, taking into account the strong financial background and good creditability of these customers under internal credit assessment adopted by the Group, the management considers that there is no significant uncovered credit risk.

The Group places deposits with major banks in the PRC and Hong Kong, therefore, the credit risk on liquid funds is limited.

***Liquidity risk***

The Group has net current assets of HK$201,519,000 as at 30 June 2011 (2010: HK$156,172,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and polices *(Continued)*

***Liquidity risk*** *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

*Liquidity risk tables*

| | Weighted average effective interest rate % | On demand or less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts at 30.6.2011 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | | 331,473 | 220,469 | 188,216 | – | 740,158 | 740,158 |
| Bank borrowings | | | | | | | |
| – fixed-rate | 7.00 | 9,695 | 180,881 | 150,138 | – | 340,714 | 331,084 |
| – floating-rate | 5.85 | 36,321 | 382,975 | 52,193 | – | 471,489 | 465,422 |
| Obligations under finance leases | 22.20 | – | 6,043 | 18,129 | 27,896 | 52,068 | 46,346 |
| | | 377,489 | 790,368 | 408,676 | 27,896 | 1,604,429 | 1,583,010 |

| | Weighted average effective interest rate % | On demand Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts at 30.6.2010 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | | 158,335 | 56,483 | 18,068 | – | 232,886 | 232,886 |
| Bank borrowings | | | | | | | |
| – fixed-rate | 5.48 | 31,964 | 6,880 | 206,447 | – | 245,291 | 236,932 |
| – floating-rate | 6.27 | 34,269 | – | 128,496 | – | 162,765 | 156,818 |
| Obligations under finance leases | 18.01 | 1,163 | 7,948 | 25,010 | 48,314 | 82,435 | 73,191 |
| | | 225,731 | 71,311 | 378,021 | 48,314 | 723,377 | 699,827 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and polices *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity risk tables (Continued)*

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis, if any.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### (c) Fair value

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

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

## 7. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Therefore, the chief operating decision maker only considers the Group's business from a product perspective, rather than from a geographic perspective. By reviewing 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 7. SEGMENT INFORMATION *(Continued)*

| | Yarn HK$'000 | Garment fabrics HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 30 June 2011** | | | |
| Total sales | **488,437** | **448,023** | **936,460** |
| Inter-segment sales | **(29,247)** | **(4,555)** | **(33,802)** |
| Turnover (from external customers) | **459,190** | **443,468** | **902,658** |
| Segment results | **6,518** | **9,817** | **16,335** |
| Income tax expense | | | **(4,928)** |
| Central administration costs | | | **(4,069)** |
| Profit for the year | | | **7,338** |
| Depreciation and amortisation | **39,433** | **28,697** | **68,130** |

| | Yarn HK$'000 | Garment fabrics HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 30 June 2010** | | | |
| Total sales | 172,483 | 653,544 | 826,027 |
| Inter-segment sales | (16,634) | (7,747) | (24,381) |
| Turnover (from external customers) | 155,849 | 645,797 | 801,646 |
| Segment results | (34,602) | 62,948 | 28,346 |
| Loss on disposal of subsidiaries | | | (23) |
| Income tax expense | | | (18,883) |
| Central administration costs | | | (3,889) |
| Profit for the year | | | 5,551 |
| Depreciation and amortisation | 28,896 | 27,082 | 55,978 |

No geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the customers in the PRC and the assets are substantially located in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 8. OTHER INCOME

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Bank interest income | **2,594** | 2,040 |
| Sales of scrap materials | **68** | 1,018 |
| Government grants received for research and development | **4,568** | 2,614 |
| Others | **695** | 724 |
| | **7,925** | 6,396 |

## 9. FINANCE COSTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Interest on | | |
| – Bank borrowings wholly repayable within five years | **48,022** | 20,136 |
| – Finance leases | **4,995** | 4,612 |
| | **53,017** | 24,748 |

## 10. INCOME TAX EXPENSE

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| *Income tax recognised in profit or loss* | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current income tax | **3,740** | 16,000 |
| – Underprovision in the prior years | **731** | 483 |
| | **4,471** | 16,483 |
| Deferred tax *(note 25)* | **457** | 2,400 |
| Total | **4,928** | 18,883 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 10. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

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.

As set out in note 25, deferred tax of HK$457,000 (2010: HK$2,400,000) has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries starting from 1 January 2008 attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

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

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Profit before tax | **12,266** | 24,434 |
| Tax at the income tax rate of 25% (2010: 25%) | **3,067** | 6,109 |
| Tax effect of expenses not deductible for tax purpose | **7,106** | 9,193 |
| Tax effect of income not taxable for tax purpose | **(3,372)** | (3,900) |
| Tax effect of deductible temporary differences not recognized | **(3,061)** | 4,598 |
| Underprovision in the previous years | **731** | 483 |
| Deferred tax on undistributed earnings of PRC's subsidiaries | **457** | 2,400 |
| Tax charge for the year | **4,928** | 18,883 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 11. PROFIT FOR THE YEAR

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit for the year has been arrived at after charging: | | |
| Staff costs | | |
| – directors' emoluments *(note 12)* | **4,665** | 3,945 |
| – other staff's salaries and other benefits | **39,546** | 21,687 |
| – other staff's retirement benefit scheme contributions | **4,012** | 2,647 |
| | **48,223** | 28,279 |
| Allowance for bad and doubtful debts | **324** | 229 |
| Auditor's remuneration | **650** | 630 |
| Depreciation of property, plant and equipment | **65,399** | 53,425 |
| Exchange loss, net | **230** | 113 |
| Loss on disposal of property, plant and equipment | **127** | 102 |
| Loss on disposal of subsidiaries | **–** | 23 |
| Release of prepaid lease payments | **2,800** | 2,627 |
| Research and development costs | **2,084** | 2,062 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the six (2010: six) directors were as follows:

### (a) Directors' emoluments

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

**2011**

| | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Mr. Chen Dong | – | 1,800 | 18 | 1,818 |
| Mr. Chen Jinyan | – | 1,440 | 18 | 1,458 |
| Mr. Chen Jinqing | – | 1,200 | 17 | 1,217 |
| Mr. Huang Yongfeng | 36 | – | – | 36 |
| Mr. Yu Zhongming | 36 | – | – | 36 |
| Mr. Lo Kin Chung | 100 | – | – | 100 |
| | 172 | 4,440 | 53 | 4,665 |

2010

| | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Mr. Chen Dong | – | 1,800 | 14 | 1,814 |
| Mr. Chen Jinyan | – | 1,440 | 14 | 1,454 |
| Mr. Chen Jinqing *(Note)* | – | 500 | 5 | 505 |
| Mr. Huang Yongfeng | 36 | – | – | 36 |
| Mr. Yu Zhongming | 36 | – | – | 36 |
| Mr. Lo Kin Chung | 100 | – | – | 100 |
| | 172 | 3,740 | 33 | 3,945 |

*Note:* Mr. Chen Jinqing was appointed as an executive director of the Company on 1 February 2010.

No directors waived any emoluments for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

**(b) Employees' emoluments**

The five highest paid individuals of the Group for the year ended 30 June 2011 included three (2010: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2010: two) individuals are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **1,253** | 1,147 |
| Retirement benefit scheme contributions | **28** | 23 |
| | **1,281** | 1,170 |

Their emoluments were all within nil to HK$1,000,000.

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

## 13. DIVIDENDS PAID

No dividend was paid or proposed for the year ended 30 June 2011 nor has any dividend been proposed since the end of the reporting period (2010: None).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 14. 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:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Earnings: | | |
| Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share | **7,338** | 5,551 |

| | **2011** **'000** | 2010 '000 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,040,602** | 1,040,602 |
| Effect of dilutive potential ordinary shares in respect of share options issued by the Company | **–** | – |
| Weighted average number of ordinary shares for the purpose of 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 set out in note 27 as the exercise prices of those options are higher than the average market prices for the Company's shares for both 2010 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Leasehold improvements | Furniture, fixtures, office equipment and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | | |
| At 1 July 2009 | 316,951 | 346,357 | 2,308 | 9,298 | 5,370 | 680,284 |
| Additions | – | 40,292 | 4 | 2,456 | 83,588 | 126,340 |
| Transfer | 1,128 | 70,731 | – | 447 | (72,306) | – |
| Disposals | – | – | – | (659) | – | (659) |
| At 30 June 2010 | 318,079 | 457,380 | 2,312 | 11,542 | 16,652 | 805,965 |
| Exchange realignment | **19,161** | **27,553** | **121** | **682** | **1,003** | **48,520** |
| Additions | **–** | **5,610** | **–** | **1,677** | **16,643** | **23,930** |
| Transfer | **9,211** | **4,649** | **–** | **–** | **(13,860)** | **–** |
| Disposal | **–** | **(13,255)** | **–** | **(2,876)** | **–** | **(16,131)** |
| At 30 June 2011 | **346,451** | **481,937** | **2,433** | **11,025** | **20,438** | **862,284** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| At 1 July 2009 | 71,593 | 71,521 | 1,443 | 5,591 | – | 150,148 |
| Provided for the year | 18,530 | 33,217 | 232 | 1,446 | – | 53,425 |
| Eliminated on disposals | – | – | – | (542) | – | (542) |
| At 30 June 2010 | 90,123 | 104,738 | 1,675 | 6,495 | – | 203,031 |
| Exchange realignment | **5,429** | **6,309** | **92** | **380** | **–** | **12,210** |
| Provided for the year | **15,567** | **47,589** | **243** | **2,000** | **–** | **65,399** |
| Eliminated on disposals | **–** | **(7,944)** | **–** | **(2,876)** | **–** | **(10,820)** |
| At 30 June 2011 | **111,119** | **150,692** | **2,010** | **5,999** | **–** | **269,820** |
| **CARRYING VALUES** | | | | | | |
| At 30 June 2011 | **235,332** | **331,245** | **423** | **5,026** | **20,438** | **592,464** |
| At 30 June 2010 | 227,956 | 352,642 | 637 | 5,047 | 16,652 | 602,934 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 3% – 10% |
| Plant and machinery | 10% – 20% |
| Leasehold improvements | 20% |
| Furniture, fixtures, office equipment and motor vehicles | 16% – 33% |

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

At 30 June 2011, certain buildings and plant and machinery of the Group with aggregate carrying values of HK$211,158,000 (2010:HK$212,934,000) and HK$127,524,000 (2010:HK$46,412,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

At 30 June 2011, the carrying value of the Group's plant and machinery held under finance leases was HK$125,048,000 (2010: HK$170,313,000).

## 16. PREPAID LEASE PAYMENTS

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Leasehold interest in land under medium-term leases in the PRC | **124,535** | 120,100 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **121,707** | 117,473 |
| Current assets *(note 18)* | **2,828** | 2,627 |
| | **124,535** | 120,100 |

At 30 June 2011, certain leasehold land with carrying values of HK$124,425,000 (2010: HK$116,438,000) were pledged to banks to secure banking facilities granted to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 17. INVENTORIES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Raw materials | 83,093 | 51,712 |
| Work in progress | 25,535 | 36,957 |
| Finished goods | 96,197 | 15,973 |
| | 204,825 | 104,642 |

At 30 June 2010, certain inventories with carrying values of HK$6,818,000 were pledged as securities for bank borrowings.

## 18. TRADE AND OTHER RECEIVABLES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade receivables | 111,151 | 101,647 |
| Less: Allowance for doubtful debts | (567) | (229) |
| | 110,584 | 101,418 |
| Prepayment to suppliers | 225,414 | 91,349 |
| Bills receivable | 6,251 | 5,023 |
| Others | 28,774 | 32,311 |
| Prepaid lease payments-current portion *(note 16)* | 2,828 | 2,627 |
| | 373,851 | 232,728 |

In the current year, HK$3,956,000 (2010: HK$3,604,000) trade receivables of the Group are denominated in USD.

The Group allows average credit period ranging from 30 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:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| 0 – 60 days | 109,671 | 77,685 |
| 61 – 90 days | 259 | 2,974 |
| Over 90 days | 654 | 20,759 |
| Trade receivables | 110,584 | 101,418 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 18. TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for that customer. Limits attributed to customers are reviewed regularly. 99% (2010: 79%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$654,000 (2010: HK$20,759,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is between 91 to 120 days (2010: 91 to 120 days).

Ageing of past due but not impaired:

| Overdue by: | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| 1 – 60 days | **320** | 448 |
| 61 – 90 days | **–** | – |
| Over 90 days | **334** | 20,311 |
| Total | **654** | 20,759 |

The Group has provided an impairment loss of HK$324,000 for the year ended 30 June 2011 (2010: HK$229,000). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Balance at beginning of the year | **229** | – |
| Impairment loss recognised on receivables | **324** | 229 |
| Exchange realignment | **14** | – |
| Balance at end of the year | **567** | 229 |

The Group would provide fully for all receivables over 180 days because historical experience showed that such receivables that were past due beyond 180 days were generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss was considered necessary. No average age of receivables are over 180 days at 30 June 2010 and 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 19. PLEDGED BANK DEPOSITS

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits that have been pledged represent deposits to secure short-term bank borrowings and are therefore classified as current assets. The pledged bank deposits will be released upon settlement of relevant bank borrowings.

The deposits carry fixed interest rates of 0.36%-0.5% (2010: 0.36%) per annum and denominated in the functional currency of the relevant group entities.

## 20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.01% to 0.5% (2010: 0.01% to 0.36%) per annum and have original maturity of three months or less.

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

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| USD | **156** | 141 |
| HKD | **2,022** | 891 |

## 21. TRADE AND OTHER PAYABLES

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Trade payables | **35,806** | 22,206 |
| Bills payable | **631,987** | 158,605 |
| Other payables | **72,365** | 52,075 |
| | **740,158** | 232,886 |

The average credit period on trade payables is 45 days (2010: 45 days). The average credit period on bills payable is ranged from 90 days to 180 days (2010: 90 days to 180 days).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 21. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade and bills payable based on the invoice date at the end of the reporting period:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 60 days | **405,653** | 137,936 |
| 61 – 90 days | **73,924** | 24,807 |
| Over 90 days | **188,216** | 18,068 |
| Trade and bills payable | **667,793** | 180,811 |

As at 30 June 2011, no construction in progress payable to contractors is included in the Group's other payables (2010: HK$3,999,000).

## 22. SECURED AND UNSECURED BANK BORROWINGS

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Secured bank borrowings | **796,506** | 390,341 |
| Unsecured bank borrowings | **–** | 3,409 |
| Total bank borrowings wholly repayable within one year | **796,506** | 393,750 |

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount of bank borrowings that are wholly repayable within one year | **796,506** | 393,750 |
| Carrying amount of bank borrowings that are repayable within one year from the end of the reporting period but contain a repayable on demand clause (shown under current liabilities) | **–** | – |
| | **796,506** | 393,750 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 22. SECURED AND UNSECURED BANK BORROWINGS *(Continued)*

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fixed-rate borrowings | **331,084** | 236,932 |
| Floating-rate borrowings | **465,422** | 156,818 |
| | **796,506** | 393,750 |

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

| | **2011** | 2010 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **4.779% to 10.000%** | 4.860% to 5.841% |
| Floating-rate borrowings | **4.779% to 9.465%** | 5.310% to 6.638% |

The Group's secured bank borrowings are wholly repayable within one year and secured by the following:

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

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

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

(iv) cross guarantee between fellow subsidiaries; and

(v) third party guarantee.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 23. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The lease term is three years (2010: four years). Interest rate underlying all obligations under finance leases was fixed at respective contract date of 3.50% (2010: 3.50% to 6.04%) per annum. These leases have purchase options of HK$1,000 (2010:HK$5,000) and have no terms of renewal and escalation clauses. No contingent rental payments and restrictions are imposed by lease arrangements.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | **24,172** | 34,121 | **20,688** | 29,478 |
| More than one year but not more than two years | **24,172** | 22,481 | **22,263** | 19,673 |
| More than two years but not more than five years | **3,723** | 25,833 | **3,395** | 24,040 |
| | **52,067** | 82,435 | **46,346** | 73,191 |
| Less: Future finance charges | **(5,721)** | (9,244) | **–** | – |
| Present value of lease obligations | **46,346** | 73,191 | **46,346** | 73,191 |
| Less: Amount due within one year and shown under current liabilities | | | **(20,688)** | (29,478) |
| Amount due after one year | | | **25,658** | 43,713 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 24. DEFERRED INCOME

| Analysed for reporting purposes as: | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Current liabilities | **693** | 653 |
| Non-current liabilities | **3,464** | 3,921 |
| | **4,157** | 4,574 |

During the year ended 30 June 2010, the Group received government grants of HK$5,227,000 towards the cost of purchase of plant and equipment for its manufacturing plant. The amount is transferred to income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current period of HK$693,000 (2010: HK$653,000). As at 30 June 2011, an amount of HK$4,157,000 (2010: HK$4,574,000) remains to be amortised.

## 25. DEFERRED TAX LIABILITIES

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

| | **Undistributable profits of PRC's subsidiaries** HK$'000 |
|---|---|
| At 1 July 2009 | 5,108 |
| Charge to profit or loss | 2,400 |
| At 30 June 2010 and 1 July 2010 | 7,508 |
| Exchange realignment | **452** |
| Charge to profit or loss | **457** |
| At 30 June 2011 | **8,417** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 26. SHARE CAPITAL

| | Number of shares | Nominal value HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each, at 1 July 2009, 30 June 2010 and 30 June 2011 | | |
| Authorised | 2,000,000,000 | 20,000 |
| Issued and fully paid | 1,040,602,583 | 10,406 |

## 27. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 10 September 2003 (the "Listing Date") and, unless otherwise terminated or amended, will remain in force for 10 years.

As at the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,600,000, representing approximately 1.79% of the issued share capital of the Company as at the date of this report. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Listing Date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company which shall not be lower than the nominal value of the shares of the Company and shall be at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the grant.

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

| Category | Date of grant | Exercise period | Exercise price HK$ | Outstanding at 1.7.2009 | Granted during the year | Cancelled during the year | Outstanding at 30.6.2010 | Granted during the year | Cancelled during the year | Exercised during the year | Outstanding at 30.6.2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Directors | 23.12.2003 | 23.12.2003 to 22.12.2013 | 0.612 | 12,000,000 | – | (12,000,000) | – | – | – | – | – |
| | 11.12.2006 | 2.1.2007 to 1.1.2012 | 0.45 | 9,000,000 | – | (9,000,000) | – | – | – | – | – |
| | 14.9.2007 | 14.9.2007 to 31.8.2012 | 0.572 | 5,250,000 | – | (5,250,000) | – | – | – | – | – |
| | 10.7.2008 | 1.8.2008 to 31.7.2018 | 0.358 | 4,300,000 | – | – | 4,300,000 | – | – | – | 4,300,000 |
| | | | | 30,550,000 | – | (26,250,000) | 4,300,000 | – | – | – | 4,300,000 |
| Employees | 23.12.2003 | 23.12.2003 to 22.12.2013 | 0.612 | 21,250,000 | – | (21,250,000) | – | – | – | – | – |
| | 11.12.2006 | 2.1.2007 to 1.1.2012 | 0.45 | 14,000,000 | – | (14,000,000) | – | – | – | – | – |
| | 14.9.2007 | 14.09.2007 to 31.8.2012 | 0.572 | 23,950,000 | – | (23,950,000) | – | – | – | – | – |
| | 10.7.2008 | 1.8.2008 to 31.7.2018 | 0.358 | 14,300,000 | – | – | 14,300,000 | – | – | – | 14,300,000 |
| | | | | 73,500,000 | – | (59,200,000) | 14,300,000 | – | – | – | 14,300,000 |
| Granted Total | | | | 104,050,000 | – | (85,450,000) | 18,600,000 | – | – | – | 18,600,000 |
| Exercisable at year end | | | | | | | 18,600,000 | | | | 18,600,000 |

## 28. DISPOSAL OF SUBSIDIARIES

The Group disposed the interest in Art Technology Limited on 20 May 2010 and disposed all the interests in Shine York Limited and Multi Jet International Trading Limited on 31 May 2010. All of the above subsidiaries were dormant before disposal.

*Consideration received*

| | 20/5/2010 HK$'000 | 31/5/2010 HK$'000 |
|---|---|---|
| Consideration received in cash and cash equivalents | 78 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 28. DISPOSAL OF SUBSIDIARIES *(Continued)*

*Analysis of assets and liabilities over which control was lost*

| | 20/5/2010<br>HK$'000 | 31/5/2010<br>HK$'000 |
|---|---|---|
| Cash and cash equivalents | (101) | – |
| Net assets disposed of | (101) | – |

*Loss on disposal of subsidiaries*

| | 20/5/2010<br>HK$'000 | 31/5/2010<br>HK$'000 |
|---|---|---|
| Consideration received | 78 | – |
| Net assets disposed of | (101) | – |
| Loss on disposal | (23) | – |

The loss on disposal is included in the profit for the year in the consolidated statement of comprehensive income for the year ended 30 June 2010.

*Net cash outflow on disposal of subsidiaries*

| | 20/5/2010<br>HK$'000 | 31/5/2010<br>HK$'000 |
|---|---|---|
| Consideration received in cash and cash equivalents | 78 | – |
| Less: cash and cash equivalents balances disposed of | (101) | – |
| | (23) | – |

## 29. OPERATING LEASE COMMITMENTS

| The Group as lessee | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year in respect of rented premises | **2,562** | 3,233 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 29. OPERATING LEASE COMMITMENTS *(Continued)*

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within one year | **2,434** | 2,475 |
| In the second to fifth year inclusive | **5,034** | 3,901 |
| Over five years | **217** | 477 |
| | **7,685** | 6,853 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouse facilities. Leases are negotiated for a term ranging from 1 to 9 years (2010: 1 to 9 years) with fixed rentals. Most of the operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

## 30. CAPITAL AND OTHER COMMITMENTS

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Capital expenditure contracted but not provided for in the consolidated financial statements in respect of: | | |
| – construction of buildings | **3,614** | – |

At 30 June 2011, the Group had commitments for future research costs of HK$497,000 (2010: HK$639,000) payable under a non-cancellable consultancy agreement which will expire on 31 March 2014.

## 31. RELATED PARTY TRANSACTIONS

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

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Short-term benefits | **4,612** | 3,912 |
| Retirement benefit scheme contributions | **53** | 33 |
| | **4,665** | 3,945 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2011*

## 32. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2011 and 2010 are as follows:

| Name of subsidiary | Place of incorporation or registration/ operations | Paid up/issued/ registered capital | Proportion of nominal value of issued/registered capital held by the Company Directly | | Indirectly | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | **2011 %** | 2010 % | **2011 %** | 2010 % | |
| Art Bright Holdings Limited | Hong Kong | HK$1 | **–** | – | **100** | 100 | Investment holding |
| Art Gate Limited | Hong Kong | HK$1 | **–** | – | **100** | 100 | Investment holding |
| Fuzhou Huaguan Knitting and Sprining Co., Ltd. ("Fuzhou Huaguan')* | PRC | RMB70,000,000 | **–** | – | **100** | 100 | Manufacture and sale of garment fabrics |
| Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng")* | PRC | US$4,000,000 | **–** | – | **100** | 100 | Manufacture and sale of garment fabrics |
| Global Art International Limited | BVI | US$1 Ordinary share | **–** | – | **100** | 100 | Investment holding |
| Good Fame Group Limited | BVI | US$1 Ordinary share | **–** | – | **100** | 100 | Investment holding |
| Right Lane International Limited | BVI | US$30,000 Ordinary shares | **100** | 100 | **–** | – | Investment holding |
| Well Master Enterprise Limited | Hong Kong | HK$1 | **–** | – | **100** | 100 | Investment holding |
| Wide Launch Investment Limited | BVI | US$1 Ordinary share | **–** | – | **100** | 100 | Investment holding |
| Zhengzhou Hongye Textile Co., Ltd. ("Zhengzhou Hongye")* | PRC | HK$35,000,000 | **–** | – | **100** | 100 | Manufacture and sale of yarn |
| Zhengzhou Huatai Textile Co., Ltd. ("Zhengzhou Huatai")** | PRC | RMB50,000,000 | **–** | – | **100** | 100 | Manufacture and sale of yarn |

* *Fuzhou Huaguan, Fuzhou Huasheng and Zhengzhou Hongye are established as wholly foreign-owned enterprises under the relevant PRC law and regulations.*

** *Zhengzhou Huatai is established as a wholly domestic-owned enterprise under the relevant PRC law and regulations.*

None of the subsidiaries had issued any debt securities at the end of the year.

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011<br>HK$'000** |
| Turnover | 645,575 | 674,195 | 615,011 | 801,646 | **902,658** |
| Profit for the year | 86,025 | 91,216 | 7,271 | 5,551 | **7,338** |

## ASSETS AND LIABILITIES

| | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011<br>HK$'000** |
| Total assets | 729,085 | 1,204,544 | 1,302,427 | 1,545,519 | **2,486,692** |
| Total liabilities | (87,698) | (408,243) | (478,232) | (715,773) | **(1,599,798)** |
| Equity attributable to owners of the Company | 641,387 | 796,301 | 824,195 | 829,746 | **886,894** |