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錦藝紡織科技國際有限公司
ART TEXTILE TECHNOLOGY
INTERNATIONAL COMPANY LIMITED

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

INTERIM REPORT 2011

Corporate Information

BOARD OF DIRECTORS

Mr. Chen Jinyan (*Chairman*)
Mr. Chen Dong (*Chief Executive Officer*)
Mr. Chen Jingjing
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)

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED

錦藝紡織科技國際有限公司

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 15 which comprise the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Dominic K.F. Chan & Co.,
Certified Public Accountants (Practising)
Rooms 2105-06, 21/F.,
Office Tower, Langham Place,
8 Argyle Street, Mongkok,
Hong Kong
24 February 2012

The board of directors (the “Board”) of Art Textile Technology International Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2011 (the “Period”), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2011

		Six months ended	
		31.12.2011	31.12.2010
		(unaudited)	(unaudited)
		HK\$'000	HK\$'000
	<i>NOTES</i>		
Turnover		914,195	371,877
Cost of sales		(770,324)	(313,455)
Gross profit		143,871	58,422
Other income		8,084	6,204
Administrative expenses		(21,662)	(19,445)
Selling and distribution costs		(14,933)	(10,710)
Other expenses		(1,258)	(1,346)
Allowance of inventory		(51,802)	–
Finance costs	4	(38,423)	(22,831)
Profit before tax		23,877	10,294
Income tax expense	5	(30,468)	(890)
(Loss)/profit for the period	6	(6,591)	9,404
Other comprehensive income			
Exchange differences arising on translation		20,629	29,523
Other comprehensive income for the period (net of tax)		20,629	29,523
Total comprehensive income for the period		14,038	38,927
(LOSS)/EARNINGS PER SHARE	8		
– Basic (HK cents per share)		(0.63)	0.90
– Diluted (HK cents per share)		(0.63)	0.90

Condensed Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	31.12.2011 (unaudited) HK\$'000	30.6.2011 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	584,511	592,464
Prepaid lease payments		121,346	121,707
Deposits for acquisition of plant and equipment		3,519	8,743
		<u>709,376</u>	<u>722,914</u>
CURRENT ASSETS			
Inventories		188,065	204,825
Trade and other receivables	10	264,372	373,851
Pledged bank deposits		514,670	337,936
Bank balances and cash		1,178,832	847,166
		<u>2,145,939</u>	<u>1,763,778</u>
CURRENT LIABILITIES			
Trade and other payables	11	1,014,527	740,158
Tax liabilities		7,101	4,214
Secured bank borrowings	12	879,506	796,506
Obligations under finance leases		21,991	20,688
Deferred income		710	693
		<u>1,923,835</u>	<u>1,562,259</u>
NET CURRENT ASSETS			
		<u>222,104</u>	<u>201,519</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>931,480</u>	<u>924,433</u>
CAPITAL AND RESERVES			
Share capital	13	10,406	10,406
Share premium and reserves		890,526	876,488
		<u>900,932</u>	<u>886,894</u>
NON-CURRENT LIABILITIES			
Obligations under finance leases		15,109	25,658
Deferred income		2,840	3,464
Deferred tax liabilities		12,599	8,417
		<u>30,548</u>	<u>37,539</u>
		<u>931,480</u>	<u>924,433</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2011

	Share capital	Share premium	Merger reserve	Exchange reserve	Statutory reserve fund	Share option reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010	10,406	165,838	136	108,702	68,044	2,598	474,022	829,746
Other comprehensive income	-	-	-	29,523	-	-	-	29,523
Profit for the period	-	-	-	-	-	-	9,404	9,404
Total comprehensive income for the period	-	-	-	29,523	-	-	9,404	38,927
At 31 December 2010	10,406	165,838	136	138,225	68,044	2,598	483,426	868,673
Other comprehensive income	-	-	-	20,287	-	-	-	20,287
Loss for the period	-	-	-	-	-	-	(2,066)	(2,066)
Total comprehensive income for the period	-	-	-	20,287	-	-	(2,066)	18,221
At 30 June 2011	10,406	165,838	136	158,512	68,044	2,598	481,360	886,894
Other comprehensive income	-	-	-	20,629	-	-	-	20,629
Loss for the period	-	-	-	-	-	-	(6,591)	(6,591)
Total comprehensive income for the period	-	-	-	20,629	-	-	(6,591)	14,038
At 31 December 2011	10,406	165,838	136	179,141	68,044	2,598	474,769	900,932

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2011

	Six months ended	
	31.12.2011	31.12.2010
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	468,094	89,285
Net cash used in investing activities		
Purchase of property, plant and equipment	(11,419)	(24,615)
Deposits paid for acquisition of plant and equipment	5,224	(254)
Increase in pledged deposits	(176,734)	(119,132)
Interest received	6,697	990
	(176,232)	(143,011)
Net cash from financing activities		
Repayments of bank borrowings	(747,988)	(268,103)
Repayments of obligations under finance leases	(9,246)	(13,520)
Interest paid on bank borrowings	(36,409)	(20,068)
Interest paid on finance leases	(2,014)	(2,763)
New bank borrowings raised	830,988	450,471
	35,331	146,017
Net increase in cash and cash equivalents	327,193	92,291
Effect of foreign exchange rate changes	4,473	22,504
Cash and cash equivalents at beginning of the period	847,166	427,116
Cash and cash equivalent at end of the period represented by bank balances and cash	1,178,832	541,911

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

In the current period, the Group has applied, for the first time, a number of Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretation (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “new HKFRS(s)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on or after 1 July 2011.

HKAS 24 (Revised)	Related Party Disclosures
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The application of the above new or revised HKFRS(s) in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ³
HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁵
HKFRS 9	Financial Instruments ⁵
HKFRS 10	Consolidated Financial Statements ³
HKFRS 11	Joint Arrangements ³
HKFRS 12	Disclosure of Interests in Other Entities ³
HKFRS 13	Fair Value Measurement ³
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ²
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets ¹
HKAS 19 (Revised)	Employee Benefits ³
HKAS 27 (Revised)	Separate Financial Statements ³
HKAS 28 (Revised)	Investments in Associates and Joint Ventures ³
HKAS 32 (Revised)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities ⁴
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ³

¹ Effective for annual periods beginning on or after 1 January 2012

² Effective for annual periods beginning on or after 1 July 2012

³ Effective for annual periods beginning on or after 1 January 2013

⁴ Effective for annual periods beginning on or after 1 January 2014

⁵ Effective for annual periods beginning on or after 1 January 2015

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

3. 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 cotton yarn and garment fabrics.

3. SEGMENT INFORMATION *(Continued)*

The chief operating decision makers assess the performance of the operating segments based on sales and net profit.

	Cotton yarn HK\$'000	Garment fabrics HK\$'000	Total HK\$'000
Six months ended 31 December 2011			
Total sales	503,760	420,924	924,684
Inter-segment sales	<u>(10,489)</u>	<u>–</u>	<u>(10,489)</u>
Turnover (from external customers)	<u>493,271</u>	<u>420,924</u>	<u>914,195</u>
Segment results	(78,170)	105,237	27,067
Income tax expense			(30,468)
Central administration costs			<u>(3,190)</u>
Loss for the period			<u>(6,591)</u>
Depreciation and amortisation	<u>(20,645)</u>	<u>(14,602)</u>	<u>(35,247)</u>
	HK\$'000	HK\$'000	HK\$'000
Six months ended 31 December 2010			
Total sales	173,104	225,683	398,787
Inter-segment sales	<u>(23,049)</u>	<u>(3,861)</u>	<u>(26,910)</u>
Turnover (from external customers)	<u>150,055</u>	<u>221,822</u>	<u>371,877</u>
Segment results	11,930	774	12,704
Income tax expense			(890)
Central administration costs			<u>(2,410)</u>
Profit for the period			<u>9,404</u>
Depreciation and amortisation	<u>(17,369)</u>	<u>(14,159)</u>	<u>(31,528)</u>

4. FINANCE COSTS

	Six months ended	
	31.12.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	36,409	20,068
– Finance leases	<u>2,014</u>	<u>2,763</u>
	<u>38,423</u>	<u>22,831</u>

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (unaudited)
The charge comprises:		
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	26,494	862
Deferred tax	<u>3,974</u>	<u>28</u>
	<u>30,468</u>	<u>890</u>

5. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax is calculated at 16.5% (1.7.2010 to 31.12.2010: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 31 December 2010 and 2011.

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

Deferred tax of HK\$3,974,000 (1.7.2010 to 31.12.2010: HK\$28,000) has been provided for in the condensed consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries during the period ended 31 December 2011 attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

6. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (unaudited)
(Loss)/profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	33,838	31,445
Release of prepaid lease payments	1,443	1,863
Allowance of inventory	51,802	-
Interest income	(6,697)	(990)

7. DIVIDEND

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2010: Nil).

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	31.12.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (unaudited)
(Loss)/Earnings		
(Loss)/profit for the period attributable to the owners of the Company and (loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	<u>(6,591)</u>	<u>9,404</u>

	Six months ended	
	31.12.2011 '000	31.12.2010 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>1,040,602</u>	<u>1,040,602</u>

The calculation of diluted loss per share in 2011 has not assumed the exercise of the share options as these potential ordinary shares are anti-dilutive during 2011.

The computation of diluted (loss)/earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices for the Company's shares for the periods ended 31 December 2010 and 2011.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$11,419,000 (1.7.2010 to 31.12.2010: HK\$24,615,000) on the construction of and addition in its manufacturing plant and machineries in the PRC in order to increase and upgrade its manufacturing capacities. Details of capital commitments were disclosed in note 15.

10. TRADE AND OTHER RECEIVABLES

The Group allows average credit period ranging from 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:

	31.12.2011 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (audited)
0 – 60 days	80,959	109,671
61 – 90 days	4,390	259
Over 90 days	1,101	654
	<hr/>	<hr/>
Trade receivables	86,450	110,584
Prepayment to suppliers	144,900	225,414
Bills receivables	9,491	6,251
Other receivables	23,531	31,602
	<hr/>	<hr/>
	264,372	373,851
	<hr/>	<hr/>

11. TRADE AND OTHER PAYABLES

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

	31.12.2011 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (audited)
0 – 60 days	501,716	405,653
61 – 90 days	73,896	73,924
Over 90 days	389,419	188,216
Trade and bills payables	965,031	667,793
Other payables	49,496	72,365
	1,014,527	740,158

12. SECURED BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK\$830,988,000 (1.7.2010 to 31.12.2010: HK\$450,471,000). The loans carried interests at fixed and floating rates and are repayable within a year. The proceeds were used for general working capital purposes and to finance the purchase of property, plant and equipment.

13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each, at 1 July 2010, 1 July 2011 and 31 December 2011		
Authorised	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid	<u>1,040,602,583</u>	<u>10,406</u>

14. SHARE-BASED PAYMENTS

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

	Number of share options
Outstanding at 1 July 2010, 31 December 2010, 30 June 2011 and 31 December 2011	<u>18,600,000</u>

There was no movement for the period ended 31 December 2011.

15. CAPITAL AND OTHER COMMITMENTS

	31.12.2011 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (audited)
Capital expenditures contracted but not provided for in the condensed consolidated financial statements in respect of construction of buildings	<u>–</u>	<u>3,614</u>

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of cotton 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 cotton yarn is used for knitting into pure cotton knit fabrics and considerably sold to external customers and the remaining for internal use. 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 would participate in textile fairs held both local and overseas so as to promote and sell its products to more customers.

Turnover

For the Period, the Group recorded a turnover of approximately HK\$914,195,000 (2010: HK\$371,877,000), approximately 145.8% more than that in 2010. The increase in turnover was attributable to significant increase in sales of cotton yarn and garment fabrics during the Period. The former was due to more efficient production carried out in Zhengzhou city as all the production lines operated throughout the whole Period when compared with the corresponding period in 2010, while the latter was due to soaring sales volume as a result of a strengthen of the sales and marketing team for garment fabrics and re-organization of the sales distributors.

Gross Profit

The gross profit margin of the Group of approximately 15.7% in the Period was at the same level as that in 2010 of approximately 15.7%. It was mainly due to the augment in commercial sales of cotton yarn and garment fabrics but simultaneously, a rise in raw material costs incurred during the Period.

(Loss)/Profit for the Period

The Group's loss for the Period was approximately HK\$6,591,000 (profit in 2010: HK\$9,404,000). Net loss margin for the Period of approximately 0.7% (net profit margin in 2010: 2.5%) was due to a number of adverse factors including the rise in raw material costs, the increase in allowance of inventory, the increase in finance costs and general rise of expenses arising from the inflation happened during the Period.

Other income

The Group's other income for the Period was approximately HK\$8,084,000 (2010: HK\$6,204,000), approximately 30.3% more than that in 2010. Such increase in the Period was attributable to the interest income received during the Period as a consequence of an increase in bank deposits.

Expenses

Administrative expenses amounted to approximately HK\$21,662,000 (2010: HK\$19,445,000), representing approximately 2.4% (2010: 5.2%) of turnover for the Period. Administrative expenses increased by approximately 11.4% when compared with that of 2010. It was due to general rise of expenses arising from the inflation happened during the Period.

Selling and distribution costs amounted to approximately HK\$14,933,000 (2010: HK\$10,710,000), representing approximately 1.6% (2010: 2.9%) of turnover for the Period. Selling and distribution costs increased by approximately 39.4% when compared with that of 2010. It was a consequence of the surge in sales of cotton yarn and garment fabrics throughout the Period.

Other expenses amounted to approximately HK\$1,258,000 (2010: HK\$1,346,000), representing approximately 0.1% (2010: 0.4%) of turnover for the Period. The decrease was due to less allowance for doubtful debts provided during the Period.

Allowance of inventory amounted to approximately HK\$51,802,000 (2010: Nil), representing approximately 5.7% (2010: Nil) of turnover for the Period. The upsurge was attributable to the written down of several raw material costs for the production of cotton yarn as a result of their drop off in the market values.

Finance costs amounted to approximately HK\$38,423,000 (2010: HK\$22,831,000), representing approximately 4.2% (2010: 6.1%) of turnover for the Period. The substantial increase was due to more bank loans and bills undertaken by the Group for the operation of both plants in Zhengzhou city and Changde city during the Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2010: Nil).

FUTURE PLANS AND PROSPECTS

The Group believes that the operating environment of Chinese textile exports prolongs 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 products on hand in order to meet the needs of dynamic textile and garment markets.

The full production capacity of all production lines in Zhengzhou city is approximately 16,000 tons per annum. Cotton of good quality is used for spinning premium yarn which is targeted at the mid to high-end markets. Majority of cotton yarn is sold to external customers while the remaining is for internal use. Ultimately, the yarn for knitting into pure cotton knit fabrics spun at the Zhengzhou plant completes its dyeing process in the Changde plant. The above processes will enable the Group to further develop the vertical integration of its production. Both plants' production capacities are expected to be utilized completely in the future, thus, it is anticipated that favourable results would be achieved by the Group given the worldwide economy recovery from its downturn.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had net current assets and total assets less current liabilities of approximately HK\$222,104,000 (30 June 2011: HK\$201,519,000) and HK\$931,480,000 (30 June 2011: HK\$924,433,000), respectively. The Group maintains a moderate financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 31 December 2011, the Group had cash and bank deposits of approximately HK\$1,693,502,000 (30 June 2011: HK\$1,185,102,000). The current ratio of the Group was approximately 111.5% (30 June 2011: 112.9%).

Shareholders' fund of the Group as at 31 December 2011 was approximately HK\$900,932,000 (30 June 2011: HK\$886,894,000). As at 31 December 2011, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB712,400,000 were equivalent to HK\$879,506,000 (30 June 2011: HK\$796,506,000); and obligations under finance leases for machinery and equipment of approximately HK\$37,100,000 (30 June 2011: HK\$46,346,000), altogether giving a gross debt gearing ratio (i.e. total borrowings/shareholders' fund) of approximately 101.7% (30 June 2011: 95.0%).

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 fair financial position throughout the Period 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 31 December 2011, the total banking facilities of the Group amounted to about HK\$1,565,149,000 (30 June 2011: HK\$1,418,051,000), of which, approximately HK\$1,409,862,000 (30 June 2011: HK\$1,161,642,000) was utilized.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

CAPITAL STRUCTURE

As at 31 December 2011, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

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

The Board monitors interest rate change exposure and consider hedging significant interest rate change exposure should the need arise.

CHARGE ON GROUP'S ASSETS

As at 31 December 2011, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK\$335,129,000 (30 June 2011: HK\$335,583,000) and approximately HK\$121,665,000 (30 June 2011: HK\$127,524,000), 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\$514,670,000 (30 June 2011: HK\$337,936,000).

As at 31 December 2011, the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK\$122,288,000 (30 June 2011: HK\$125,048,000).

STAFF POLICY

The Group had 1,260 employees altogether in the PRC and Hong Kong as at 31 December 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 (Cap. 485 of the Laws of Hong Kong), for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

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

CONTINGENT LIABILITIES

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions

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

Name of directors	Capacity	Number of issued ordinary shares held	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, 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.

(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 (<i>Note</i>)	2,400,000	2,400,000

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

Other than as disclosed above, none of the directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December 2011.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 31 December 2011.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the consolidated financial statements of the Company's 2011 annual report.

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

Grantee	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2011	Granted during the Period	Cancelled during the Period	Exercised during the Period	Outstanding at 31.12.2011
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 (<i>Note</i>)	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 is deemed to be interested in 2,400,000 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.

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

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

CODE ON CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company (the "Directors"), all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

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

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

By order of the Board

Chen Jinyan

Chairman

Hong Kong

24 February 2012