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 2012

Corporate Information

BOARD OF DIRECTORS
Mr. Chen Jinyan *(Chairman)*
Mr. Chen Dong *(Chief Executive Officer)*
Mr. Chen Jinqing
Mr. Lo Kin Chung*
Mr. Yang Zeqiang*
Mr. Yu Zhongming*

* *Independent non-executive director*

COMPANY SECRETARY
Ms. Yeow Mee Mooi

AUDITOR
Dominic K.F. Chan & Co.

PRINCIPAL BANKERS
China Construction Bank
China Minsheng 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
Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1 – 1110
Cayman Islands

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

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

Report on Review of Interim Financial Information

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

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

Introduction

We have reviewed the interim financial information set out on pages 3 to 17 which comprises the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2012 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,
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Hong Kong
22 February 2013

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 2012 (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 2012

		Six months ended	
	NOTES	**31.12.2012 (unaudited) HK$'000**	31.12.2011 (unaudited) HK$'000
Turnover		**1,115,776**	914,195
Cost of sales		**(1,019,313)**	(770,324)
Gross profit		**96,463**	143,871
Other income		**6,073**	8,084
Gain on disposal of subsidiaries	*17*	**92,484**	–
Administrative expenses		**(28,080)**	(21,662)
Selling and distribution costs		**(12,470)**	(14,933)
Other expenses		**(1,597)**	(1,258)
Allowance of inventory		**–**	(51,802)
Finance costs	*4*	**(36,485)**	(38,423)
Profit before tax		**116,388**	23,877
Income tax expense	*5*	**(23,299)**	(30,468)
Profit/(loss) for the period	*6*	**93,089**	(6,591)
Other comprehensive income/(expense)			
Reclassification adjustments relating to exchange difference upon disposal of interests in subsidiaries		**(14,128)**	–
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**–**	20,629
Other comprehensive income/(expense) for the period (net of tax)		**(14,128)**	20,629
Total comprehensive income for the period		**78,961**	14,038
EARNINGS/(LOSS) PER SHARE	*8*		
– Basic (HK cents per share)		**8.95**	(0.63)
– Diluted (HK cents per share)		**8.95**	(0.63)

Condensed Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	31.12.2012 (unaudited) HK$'000	30.6.2012 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**97,842**	564,497
Prepaid lease payments		**18,887**	121,820
Deposits for acquisition of plant and equipment		–	3,972
		116,729	690,289
CURRENT ASSETS			
Inventories		**21,891**	151,690
Trade and other receivables	10	**107,910**	361,650
Pledged bank deposits		**41,529**	516,947
Bank balances and cash		**1,073,118**	990,434
		1,244,448	2,020,721
CURRENT LIABILITIES			
Trade and other payables	11	**165,105**	1,007,821
Tax liabilities		**5,797**	6,852
Secured bank borrowings	12	**188,272**	742,222
Obligations under finance leases		–	22,819
Deferred income		–	881
		359,174	1,780,595
NET CURRENT ASSETS		**885,274**	240,126
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,002,003**	930,415
CAPITAL AND RESERVES			
Share capital	13	**10,406**	10,406
Share premium and reserves		**982,972**	904,011
Equity attributable to owners of the Company		**993,378**	914,417
NON-CURRENT LIABILITIES			
Obligations under finance leases			
– due after one year		–	3,506
Deferred income		–	3,867
Deferred tax liabilities		**8,625**	8,625
		8,625	15,998
		1,002,003	930,415

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2012

	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 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
Other comprehensive income	–	–	–	2,130	–	–	–	2,130
Profit for the period	–	–	–	–	–	–	11,355	11,355
Total comprehensive income for the period	–	–	–	2,130	–	–	11,355	13,485
At 30 June 2012	10,406	165,838	136	181,271	68,044	2,598	486,124	914,417
Other comprehensive expense	–	–	–	(14,128)	–	–	–	(14,128)
Profit for the period	–	–	–	–	–	–	93,089	93,089
Total comprehensive income for the period	–	–	–	(14,128)	–	–	93,089	78,961
At 31 December 2012	10,406	165,838	136	167,143	68,044	2,598	579,213	993,378

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 2012

	Six months ended	
	31.12.2012	31.12.2011
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash from operating activities	**124,309**	468,094
Net cash used in investing activities		
Purchase of property, plant and equipment	**(18,870)**	(11,419)
Deposits paid for acquisition of plant and equipment	**(1,045)**	5,224
Decrease/(increase) in pledged deposits	**67,332**	(176,734)
Interest received	**5,500**	6,697
Net cash outflow on disposal of subsidiaries	**(2,086)**	–
	50,831	(176,232)
Net cash from financing activities		
Repayments of bank borrowings	**(515,111)**	(747,988)
Repayments of obligations under finance leases	**(11,230)**	(9,246)
Interest paid on bank borrowings	**(35,515)**	(36,409)
Interest paid on finance leases	**(970)**	(2,014)
New bank borrowings raised	**470,370**	830,988
	(92,456)	35,331
Net increase in cash and cash equivalents	**82,684**	327,193
Effect of foreign exchange rate changes	**–**	4,473
Cash and cash equivalents at beginning of the period	**990,434**	847,166
Cash and cash equivalent at end of the period represented by bank balances and cash	**1,073,118**	1,178,832

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2012 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2012.

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 2012.

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKAS 1 (Amendments)	Presentation of the Items of Other Comprehensive Income

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

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[1]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] 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 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. 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 HK$'000	Yarn HK'000	Garment fabrics HK$'000	Total HK$'000
Six months ended 31 December 2012				
Total sales	**632,495**	**68,987**	**417,968**	**1,119,450**
Inter-segment sales	**–**	**(3,674)**	**–**	**(3,674)**
Turnover (from external customers)	**632,495**	**65,313**	**417,968**	**1,115,776**
Segment results	**(4,066)**	**(61,107)**	**92,593**	**27,420**
Income tax expense				**(23,299)**
Central administration costs				**(3,516)**
Gain on disposal of subsidiaries				**92,484**
Profit for the period				**93,089**
Depreciation	**–**	**19,729**	**12,268**	**31,997**

	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	(10,489)	–	(10,489)
Turnover (from external customers)	493,271	420,924	914,195
Segment results	(78,170)	105,237	27,067
Income tax expense			(30,468)
Central administration costs			(3,190)
Loss for the period			(6,591)
Depreciation	(19,445)	(14,359)	(33,804)

4. FINANCE COSTS

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**35,515**	36,409
– Finance leases	**970**	2,014
	36,485	38,423

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Income tax recognised in profit or loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**23,299**	26,494
Deferred tax	**–**	3,974
	23,299	30,468

5. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at 16.5% (1.7.2011 to 31.12.2011: 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 2011 and 2012.

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%.

No deferred tax (1.7.2011 to 31.12.2011: HK$3,974,000) 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 2012 attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

6. PROFIT/(LOSS) FOR THE PERIOD

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit/(loss) for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**32,027**	33,838
Release of prepaid lease payments	**1,443**	1,443
Allowance of inventory	**–**	51,802
Interest income	**(5,500)**	(6,697)

7. DIVIDEND PAID

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2011: Nil).

8. EARNINGS/(LOSS) PER SHARE

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

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings/(Loss)		
Profit/(loss) for the period attributable to the owners of the Company and earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share	**93,089**	(6,591)

	Six months ended	
	31.12.2012	31.12.2011
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	**1,040,602**	1,040,602

The calculation of diluted loss per share in 2012 has not assumed the exercise of the share options as these potential ordinary shares are anti-dilutive during 2012.

The computation of diluted earnings/(loss) 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 2011 and 2012.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$11,111,000 (1.7.2011 to 31.12.2011: HK$11,419,000) for construction costs for a new research and development centre in the PRC in order to 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:

	31.12.2012 HK$'000 (unaudited)	30.6.2012 HK$'000 (audited)
0 – 60 days	**95,940**	157,860
61 – 90 days	**3,098**	3,199
Over 90 days	**1,494**	2,973
Trade receivables	**100,532**	164,032
Prepayment to suppliers	**–**	186,719
Other receivables	**7,378**	10,899
	107,910	361,650

11. TRADE AND OTHER PAYABLES

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

	31.12.2012	30.6.2012
	HK$'000	HK$'000
	(unaudited)	(audited)
0 – 60 days	**71,118**	514,823
61 – 90 days	**51,146**	60,765
Over 90 days	**24,691**	387,436
Trade and bills payables	**146,955**	963,024
Other payables	**18,150**	44,797
	165,105	1,007,821

12. SECURED BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK$163,580,000 (1.7.2011 to 31.12.2011: HK$830,988,000). 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 2011, 1 July 2012 and 31 December 2012		
Authorised	2,000,000,000	20,000
Issued and fully paid	1,040,602,583	10,406

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 2011, 31 December 2011, 30 June 2012 and 31 December 2012	18,600,000

There was no movement for the period ended 31 December 2012.

15. CAPITAL AND OTHER COMMITMENTS

	31.12.2012 HK$'000 (unaudited)	30.6.2012 HK$'000 (audited)
Capital expenditures contracted but not provided for in the condensed consolidated financial statements in respect of construction of buildings	**3,704**	20,058

16. RELATED PARTY TRANSACTIONS

The remuneration of key management during the period was as follows:

	Six months ended	
	31.12.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (unaudited)
Short-term benefits	**2,306**	2,306
Retirement benefit scheme contributions	**33**	33
	2,339	2,339

16. RELATED PARTY TRANSACTIONS *(Continued)*

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

17. DISPOSAL OF SUBSIDIARIES

On 11 December 2012, the Group entered into a conditional sale and purchase agreement to dispose of its entire equity interest in its subsidiaries, Wide Launch Investment Limited and Zhengzhou Huatai Textile Company Limited (collectively referred to as the "Disposal Group") to independent third parties at an aggregate consideration of RMB5,000,000 (equivalent to approximately HK$6,173,000). The principal activity of the Disposal Group is manufacturing or sales of cotton and yarn. The disposal was completed on 31 December 2012.

	HK$'000 (unaudited)
Net liabilities disposed of:	
Property, plant and equipment	453,499
Prepaid lease payments	101,488
Deposits for acquisition of plant and equipment	5,017
Inventories	99,173
Trade and other receivables	280,717
Pledged bank deposits	408,087
Bank balances and cash	3,321
Trade and other payables	(894,873)
Secured bank borrowings	(509,210)
Obligations under finance leases	(15,095)
Deferred income	(4,307)
	(72,183)

17. DISPOSAL OF SUBSIDIARIES *(Continued)*

	HK$'000 (unaudited)
Gain on disposal of subsidiaries:	
Total consideration	6,173
Less:	
Net liabilities disposed of	(72,183)
Cumulative exchange differences in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on disposal of the subsidiaries	(14,128)
Gain on disposal of subsidiaries	92,484
Total consideration satisfied by:	
Cash consideration received	1,235
Cash consideration receivable	4,938
Total consideration	6,173
Net cash outflow arising on disposal:	
Cash consideration received	1,235
Less: Bank balances and cash disposed of	3,321
	(2,086)

The remaining balance of the consideration will be received in accordance with the terms of the sale and purchase agreement.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of garment fabrics targeting at mid-to-high-end markets both in the PRC and overseas. The Group has vertically integrated its production process to include research and development, grey fabric trial weaving, garment fabric dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's garment 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, which in turn enlarge the varieties of down wear, sports wear and household products with different nature and consequently, boosts the market expansion.

At the end of the Period, the Group disposed of a few subsidiaries with their principal activities in the manufacture and sale of cotton and yarn due to significant amount of losses incurred by them in the past few years as a result of gradual fierce involvement of the PRC government in the cotton market for the benefits of local cotton farmers and the stringent restriction of imported cotton quota to minimise supply of overseas cotton with lower selling prices into the PRC. Eventually, the Group as a whole had to suffer broad fluctuation of cotton costs during the Period and take up extra raw material costs which consequently reduced its total profits. In addition, the yarn market in the PRC remained weak throughout 2012 and market demand for yarn decreased, which in turn reduced yarn production volume of Zhengzhou Hongye Textile Company Limited and Zhengzhou Huatai Textile Company Limited significantly in the Period when compared with the comparable period in 2011. Furthermore, fixed production costs, such as salary and wages and depreciation costs, increased the cost of production per tonne and as such, the gross profit margin decreased. The Group therefore disposed of the cotton and yarn segments and put its focus on garment fabrics, which is a more profitable segment, for its long term advantage.

To implement the Group's plan in expanding sales markets, the Group participated in the textile fair held in Shanghai, the PRC, during the Period so as to promote and sell its products to more customers.

Turnover

For the Period, the Group recorded a turnover of approximately HK$1,115,776,000 (2011: HK$914,195,000), approximately 22.1% more than that in 2011. The increase in turnover was attributable to an increase in sales of cotton during the Period. The sales of high quality cotton commenced during the year ended 30 June 2012 was made to new and existing customers that enabled the Group to diversify its business. On the other hand, the sales of yarn reduced significantly in line with the drop in production volume as a result of the weak yarn market and shrinkage of its demand in the PRC during the Period and the sales of garment fabrics maintained at the same level when compared with that in 2011.

Gross Profit

The gross profit margin of the Group decreased to approximately 8.7% for the six months ended 31 December 2012 from approximately 15.7% for the six months ended 31 December 2011. The decrease was due to extensive variance in raw material costs, especially cotton, incurred during the Period due to cotton cost control policies and restriction on import quota of low-priced overseas cotton implemented by the PRC government for the privileges of local cotton farmers. At the same time, some fixed production costs, such as salaries and wages and depreciation costs, increased the cost of production per tonne and therefore, the gross profit margin decreased.

Profit/(Loss) for the Period

The Group's profit for the Period was approximately HK$93,089,000 (loss in 2011: HK$6,591,000) and net profit margin for the Period of approximately 8.3% (net loss margin in 2011: 0.7%). These surges were due to the gain on disposal of a few subsidiaries with their principal activities in the manufacture and sale of cotton and yarn before the end of the Period as a consequence of their significant amount of losses incurred in the past few years, which in turn lowered the aggregated profit and earnings for the Group.

Save as the gain on disposal of subsidiaries, the cotton segment obtained slightly negative result because of continuous fluctuation in raw material costs throughout the Period. Because of the same reason and along with some internal and external factors, such as fixed production costs and contraction in market demand, the yarn segment incurred significant loss in the Period when compared with the comparable period in 2011. The result of garment fabrics segment remained at similar level because of nearly full utilisation of production capacity in both periods ended 31 December 2011 and 2012.

Other income

The Group's other income for the Period was approximately HK$6,073,000 (2011: HK$8,084,000), approximately 24.9% less than that in 2011. Such decrease was attributable to a decrease in the saving interest rates announced by the People's Bank of China, as well as a decrease in the balance of bank deposits during the Period.

Expenses

Administrative expenses amounted to approximately HK$28,080,000 (2011: HK$21,662,000), representing approximately 2.5% (2011: 2.4%) of the turnover for the Period. Administrative expenses increased by approximately 29.6% when compared with the comparable period in 2011. It was due to an increase in handling fees charged by banks as a result of an increase in bills and bank loans drawdown during the Period and general increase of expenses arising from the inflation.

Selling and distribution costs amounted to approximately HK$12,470,000 (2011: HK$14,933,000), representing approximately 1.1% (2011: 1.6%) of the turnover for the Period. Selling and distribution costs were decreased by approximately 16.5% when compared with the comparable period in 2011. It was mainly due to a decrease in delivery charges resulting from the decline in sales of yarn throughout the Period.

Other expenses amounted to approximately HK$1,597,000 (2011: HK$1,258,000), representing approximately 0.1% (2011: 0.1%) of the turnover for the Period and remained at similar level when compared with the comparable period in 2011.

Gain on disposal of subsidiaries amounted to approximately HK$92,484,000 (2011: Nil), representing approximately 8.3% (2011: Nil) of the turnover for the Period. This was attributable to the disposal of net liabilities and cumulative exchange differences of a few subsidiaries deducted from the consideration of their disposal.

No allowance of inventory was incurred in the Period (2011: HK$51,802,000), the amount in 2011 represented approximately 5.7% of the turnover for the six months ended 31 December 2011. It was attributable to the written down of several raw material costs for the production of yarn as a result of their decrease in the market values during the six months ended 31 December 2011.

Finance costs amounted to approximately HK$36,485,000 (2011: HK$38,423,000), representing approximately 3.3% (2011: 4.2%) of the turnover for the Period. The decrease was due to a decrease in the lending interest rates announced by the People's Bank of China during the Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2011: Nil).

FUTURE PLANS AND PROSPECTS

The Group's current strategy and business plan is to put more resources on the more profitable segment, garment fabrics, through sustaining efforts in research and development of new products and improvement of products on hand, to maintain good and close relationship with distribution agents and valuable customers, to strengthen its current sales and marketing teams in major textile sales outlets in the PRC and to manufacture extensive varieties of garment fabrics by existing state-of-the-art dyeing machinery and equipment. In addition, the Group designates some suppliers to weave grey fabrics based on the samples researched and developed by it in order to ensure a steady supply and better quality control for the dyeing process. By leveraging on the above strategies and established strengths, experience and foresight, the Group continues to grasp opportunities to meet the needs of dynamic textile and garment markets, explore new markets and increase profit margin.

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 fluctuation in raw material costs, lower labour costs in nearby countries, such as Vietnam, India and Cambodia, intensifying international trade protectionism, continuous economic depression in Europe and America and unpredictable inflation. In view of the continuous downturn of the economies in Europe and America, the Group focuses more on local markets and other overseas markets, such as the Middle East. In addition, the Group implements conservative and stringent cost control policies in order to preserve sufficient working capital by imposing control over capital expenditure, enhancing inventory management and strengthening accounts receivable management.

Looking forward, the Group will continue 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. The business growth of the Group is expected to accelerate and accordingly the positive outcomes will be gradually reflected in the future given that the worldwide economy recovers from the downturn. Moreover, 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had net current assets and total assets less current liabilities of approximately HK$885,274,000 (30 June 2012: HK$240,126,000) and HK$1,002,003,000 (30 June 2012: HK$930,415,000), respectively. The Group maintains a sound financial position by financing its operations with internally generated resources, bills and bank loans. As at 31 December 2012, the Group had cash and bank deposits of approximately HK$1,114,647,000 (30 June 2012: HK$1,507,381,000). The current ratio of the Group was approximately 346.5% (30 June 2012: 113.5%).

Shareholders' fund of the Group as at 31 December 2012 was approximately HK$993,378,000 (30 June 2012: HK$914,417,000). As at 31 December 2012, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB152,500,000 were equivalent to HK$188,272,000 (30 June 2012: HK$742,222,000). There was no obligation under finance leases for machinery and equipment as at 31 December 2012 (30 June 2012: HK$26,325,000). As at 31 December 2012, the gross debt gearing ratio (i.e. total borrowings/shareholders' fund) was approximately 19.0% (30 June 2012: 84.0%).

The Group maintains significant amount of working capital on hand in order to maintain a sound financial position throughout the Period and in future, and it 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 2012, the total banking facilities of the Group amounted to about HK$280,864,000 (30 June 2012: HK$1,635,649,000), of which, approximately HK$243,815,000 (30 June 2012: HK$1,557,144,000) 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 2012, 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 will consider hedging significant interest rate change exposure should the need arise.

CHARGE ON GROUP'S ASSETS

As at 31 December 2012, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$36,332,000 (30 June 2012: HK$323,252,000) and approximately HK$36,030,000 (30 June 2012: HK$226,745,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$41,529,000 (30 June 2012: HK$516,947,000).

No plant and machinery of the Group was held under finance leases as at 31 December 2012 while as at 30 June 2012, the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$114,852,000.

No inventories were pledged as securities for bank borrowings as at 31 December 2012; while as at 30 June 2012, certain inventories with carrying values of approximately HK$70,735,000 were pledged as securities for bank borrowings.

STAFF POLICY

The Group had 486 employees altogether in the PRC and Hong Kong as at 31 December 2012. 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.

Three independent non-executive directors are appointed for a term of 1 year commencing from either 1 September or 19 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 2012, 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 (Chapter 571 of the Laws of Hong Kong) ("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 as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Long positions

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

Name of director	Capacity	Number of issued ordinary shares held	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 of the Company.

(b) Share options

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	1,900,000	1,900,000
Mr. Chen Jinqing	Held by spouse *(Note)*	2,400,000	2,400,000

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

Other than as disclosed above, none of the directors, chief executives of the Company 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 2012.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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 2012.

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 2012 annual report.

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

Grantee	Date of grant	Exercise period	Exercise price	Outstanding at 1.7.2012 and 31.12.2012
			HK$	
Directors				
Mr. Chen Jinyan	10.7.2008	1.8.2008 to 31.7.2018	0.358	1,900,000
Mr. Chen Jinqing *(Note)*	10.7.2008	1.8.2008 to 31.7.2018	0.358	2,400,000
				4,300,000
Employees	10.7.2008	1.8.2008 to 31.7.2018	0.358	14,300,000
Granted Total				18,600,000

Note: Mr. Chen Jinqing 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.

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 PRACTICES

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 Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODE 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, all directors of the Company 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

22 February 2013