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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)

Annual Report 2013

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

* Independent Non-executive Director

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Dominic K.F. Chan & Co.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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China Merchants Tower, Shun Tak Centre,
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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

PRINCIPAL BANKERS

China Merchants Bank
Bank of China
China Minsheng Bank
Fujian Haixia Bank
Standard Chartered Bank

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（錦藝紡織科技國際有限公司）("Art Textile" or the "Company") and its subsidiaries (together, the "Group"), I am pleased to report that the Group recorded a turnover of HK$1,430,025,000 (2012: HK$2,106,147,000) and a profit for the year of HK$121,873,000 (2012 HK$4,764,000).

BUSINESS REVIEW

The Group produces high quality and extensive varieties of garment fabrics for making down wear, sportswear, household products and men's and women's fashions by state-of-the-art dyeing machinery and equipment installed at the plant in Changle city of Fujian Province of the People's Republic of China (the "PRC"). With the strengths in advanced research and development technology, skillful workforce and thorough sales distribution channels, the Group is then able to maintain its production capacity, enhance its market position and profitability, closely monitor its quality control and production costs and shorten the production cycle.

When compared with the corresponding period for the financial year ended 30 June 2012, turnover of cotton and yarn segments were respectively reduced in some extent and substantially and the losses in their segment results were continuously enlarged. The sales volume of cotton and production volume of yarn dropped significantly due to weak markets and shrinkage of apparel demand from overseas end consumers. Subsequent to the acquisition of a few subsidiaries with their principal activities in the manufacture and sales of cotton and yarn in 2008 (the "Disposal Group"), there had been a wide fluctuation in the cost of cotton due to the participation of the PRC government in the cotton market in order to protect the privileges of local cotton farmers and to regulate and control the general economic environment. The participation of the PRC government in the cotton market has been gradually increasing. Meanwhile, the PRC government restricts the quota for the purchase of imported cotton which has lower selling prices than local cotton. All the above factors contributed to lack of market competency of yarn manufactured by the Disposal Group, the increased cost of sales of the Group and simultaneously reduced its profit margin. As the situations are expected to be continued and become severe in the future, the Directors decided to dispose of the Disposal Group by the end of December 2012 so as to cease and mitigate its financial burden and adverse impacts imposed on the Group as a whole and reallocate its resources on the profitable segment for its long term advantage.

Turnover of garment fabrics segment also reduced in certain extent when compared with that in 2012. The decrease was because of the falling market demand by overseas apparel end consumers in view of the continuous downturn of the economies in Europe and America; hence, fewer purchase orders were placed to the PRC garment fabrics manufacturers. Consequently, its result also fell due to higher raw material costs and labour charges and a general rise of operating expenses arising from inflation incurred during the current year.

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 through reinforcement of sales and marketing team and participation in textile fairs and to increase profit margin by applying stringent cost control policy. These positive outcomes will be steadily reflected in future results.

CHAIRMAN'S STATEMENT

STRATEGIES AND OUTLOOK

In response to the events for the year ended 30 June 2013 and the ongoing challenges, the Group has renewed its focus on restoring sustainable financial results from its garment fabrics segment so as to obtain more profitable outcome. The Board gives its input in determining the Group's strategy development and planning process, as well as the generation and preservation of the Group's long-term value. Consequently, the Board closely monitors and regularly reviews the results of the implementation of the strategies, with the goals of reviving the Group's performance, enhancing its competitiveness and improving shareholder value.

Armed with 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 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 through participation in various textile fairs and exhibitions.

Apart from engaging in the production of fashionable apparel targeting at mid-to-high-end market by state-of-the-art dyeing machinery and equipment, the Group continues to devote in the research and development of new products in order to meet the ever-changing needs and development trend of the textile and garment markets. The Group has endeavored to capture this opportunity to increase its market share by constantly researching and developing a series of functional garment fabrics for using in different occasions.

The Group continues with careful cost management to attain greater efficiency in operations and a healthy financial position in order to pursue business development and new opportunities for strengthening its business momentum. The Group holds a sound financial position and its business is continuing to contribute strong cash flows. The Group maintains its long-standing commitment to a prudent and cautious financial management policy, and is confident of increasing shareholder value in long run as its sales of garment fabrics retain hard-bitten from the current adversities.

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 at the plant in Changle city to treat and recycle sewage generated throughout the production process. The sewage treatment station has already been approved by 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 through cutting-edge research and development technology, boost market promotion and swell distribution network in the PRC and overseas markets.

CHAIRMAN'S STATEMENT

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, 27 September 2013

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 during the current year. The Group has vertically integrated 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 knitting into pure cotton knit fabrics and garment fabrics are used for manufacturing down wear, sportswear, household products such as sofas and curtains 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 enlarges the varieties of down wear, sportswear and household products with different nature and consequently, boosts the Group's market expansion.

In the end of December 2012, the Group disposed of a few subsidiaries principally engaged in the manufacture and sale of cotton and yarn due to significant losses incurred by them in the past few years as a result of gradual fierce involvement of the PRC government in the cotton market to safeguard the interests of local cotton farmers and the stringent restriction of imported cotton quota to minimise the supply of overseas cotton with lower selling prices into the PRC. As a result, the Group as a whole was affected by the broad fluctuation of cotton prices during the year and the increase in raw material costs consequently reduced its total profits. In addition, the yarn market in the PRC remained weak throughout 2012 and market demand decreased, which in turn significantly reduced the yarn production volumes of Zhengzhou Hongye Textile Company Limited and Zhengzhou Huatai Textile Company Limited compared with those in last financial year. Furthermore, fixed production costs, such as salary and wages and depreciation costs and increased cost of production per ton negatively affected the gross profit margin of the Group. 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 year so as to promote and sell its products to more customers.

Turnover

For the financial year ended 30 June 2013, the Group recorded a turnover of approximately HK$1,430,025,000 (2012: HK$2,106,147,000), approximately 32.1% less than that for the year ended 30 June 2012. The decrease in turnover was attributable to significant decrease in the turnover of cotton, yarn and garment fabrics during the current financial year. The decrease in the total turnover of cotton and yarn for the year ended 30 June 2013 was due to the disposal of a few subsidiaries principally engaged in the manufacture and sale of cotton and yarn (the "Disposal Group") in the end of December 2012 as a result of their gloomy business prospects as well as the significant reduction of their sales which was in line with the drop in sales volume of cotton and production volume of yarn as a consequence of weak markets and shrinkage of apparel demand from overseas end consumers. The decrease in the turnover of garment fabrics was because of the decrease in market demand by overseas apparel end consumers in view of the continuous downturn of the economies in Europe and America, which resulted in fewer purchase orders placed with the PRC garment fabrics manufacturers as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

The gross profit margin of the Group was approximately 11.8% for the year ended 30 June 2013, which compared with that for the year ended 30 June 2012 of approximately 9.4%. The increase was due to the disposal of the Disposal Group in the end of December 2012, which in turn, placed less pressure on the total cost of sales. The Disposal Group incurred substantial raw material costs during the year owing to cotton cost control policies and restriction on import quota of low-priced overseas cotton implemented by the PRC government for the benefits of local cotton farmers. At the same time, the gross profit margin was negatively affected by fixed production costs, such as salaries and wages and depreciation costs and increased cost of production per ton. Despite the increased raw material costs and labour costs for the garment fabrics segment, the benefits of the disposal of the Disposal Group far outweighed the costs, which attributed to the increase in the gross profit margin to a certain extent.

Profit for the Year

The Group's profit for the financial year ended 30 June 2013 increased significantly from the Group's profit for the year ended 30 June 2012. The Group's profit was approximately HK$121,873,000 (2012: HK$4,764,000) for the year ended 30 June 2013; and net profit margin increased significantly from approximately 0.2% for the year ended 30 June 2012 to 8.5% for the year ended 30 June 2013. These surges were due to the gain on disposal of the Disposal Group amounting to approximately HK$92,484,000.

Despite the gain on disposal, the cotton segment was negatively affected by the continuous fluctuation in raw material costs due to the participation of the PRC government in the cotton market in order to safeguard the interests of local cotton farmers and to regulate and supervise general economic environment. In addition to the above reason, some internal and external factors such as fixed production costs and contraction in market demand, the yarn segment incurred a sizeable loss as well. The garment fabrics segment was also negatively affected by the falling market demand of overseas apparel end consumers in view of the continuous downturn of the economies in Europe and America, which resulted in fewer purchase orders placed with the PRC garment fabrics manufacturers as a whole. During the year ended 30 June 2013, higher raw material costs and labour costs along with a general increase in operating expenses arising from inflation were incurred, which in turn decreased the result of the garment fabrics segment.

Other income

The Group's other income for the financial year ended 30 June 2013 was approximately HK$9,459,000 (2012: HK$14,074,000), which was approximately 32.8% less than that for the year ended 30 June 2012. Such decrease was attributable to a decrease in bank interest rates announced by the People's Bank of China, as well as a decrease in the balance of the Group's bank deposits during the financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPENSES

Administrative expenses amounted to approximately HK$41,539,000 (2012: HK$52,340,000), representing approximately 2.9% (2012: 2.5%) of the turnover for the year ended 30 June 2013. Administrative expenses decreased by approximately 20.6% when compared with those for the year ended 30 June 2012, which was mainly due to the decrease in daily operation costs of the Disposal Group as a consequence of its disposal in the end of December 2012.

Selling and distribution costs amounted to approximately HK$22,739,000 (2012: HK$25,218,000), representing approximately 1.6% (2012: 1.2%) of the turnover for the year ended 30 June 2013. Selling and distribution costs decreased by approximately 9.8% compared to those for the year ended 30 June 2012, which was mainly due to the decrease in delivery charges and promotional expenses spent as a result of the disposal of the Disposal Group in the end of December 2012.

Other expenses amounted to approximately HK$3,142,000 (2012: HK$3,450,000), representing approximately 0.2% (2012: 0. 2%) of turnover for the year ended 30 June 2013 and remained steady when compared with those for the year ended 30 June 2012.

Gain on disposal of subsidiaries amounted to approximately HK$92,484,000 (2012: Nil), representing approximately 6.5% (2012: Nil) of the turnover for the year ended 30 June 2013. This was attributable to the disposal of net liabilities and cumulative exchange differences of a few subsidiaries deducted from the consideration of their disposal.

Finance costs amounted to approximately HK$45,452,000 (2012: HK$75,935,000), representing approximately 3.2% (2012: 3.6%) of the turnover for the year ended 30 June 2013. The substantial decrease was due to fewer bank loans and bills undertaken by the Group during the financial year as a consequence of the disposal of the Disposal Group in the end of December 2012.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2013 (2012: Nil).

FUTURE PLANS AND PROSPECTS

The Group's current strategy and business plan is to place additional resources on the more profitable garment fabrics segment, through sustaining efforts in research and development of new products and improvement of existing products, 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 the Group's existing state-of-the-art dyeing machineries and equipment. The Group will continue to designate certain 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. In addition, a new and comprehensive research and development centre is under construction and expected to be in use by the end of 2013. Wide-ranging and different kinds of garment fabrics will be explored and innovated for the purposes of product competitiveness, market expansion and profit upsurge in future. By leveraging on the above strategies and its established strengths, experience and foresight, the Group will continue to seize opportunities to meet the needs of the dynamic textile and garment markets, explore new markets and increase profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

The future development of the textile industry in the PRC is still expected to face significant challenges and 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 will focus more on local markets and other overseas markets, such as the Middle East. Furthermore, the Group has implemented conservative and stringent cost control policies and measures in order to ensure 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 product mix, increase market promotion and 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 with the recovery of the worldwide economy. 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 30 June 2013, the Group had net current assets and total assets less current liabilities of approximately HK$940,252,000 (2012: HK$240,126,000) and HK$1,054,901,000 (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 30 June 2013, the Group had cash and bank deposits of approximately HK$1,139,568,000 (2012: HK$1,507,381,000). The current ratio of the Group was approximately 421.6% (2012: 113.5%).

Shareholders' fund of the Group as at 30 June 2013 was approximately HK$1,046,058,000 (2012: HK$914,417,000). As at 30 June 2013, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB103,250,000 were equivalent to HK$130,696,000 (2012: HK$742,222,000). There was no obligation under finance leases for machinery and equipment as at 30 June 2013 (2012: HK$26,325,000). As at 30 June 2013, the gross debt gearing ratio (i.e. total borrowings/shareholders' fund) was approximately 12.5% (2012: 84.0%).

The Group has maintained and will continue to maintain significant amount of working capital on hand in order to maintain a healthy financial position, and adequate resources are expected to be generated from its business operations in meeting its short term and long term obligations.

FINANCING

As at 30 June 2013, the total banking facilities of the Group amounted to approximately HK$219,304,000 (2012: HK$1,635,649,000), of which, approximately HK$185,557,000 (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 terms.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 June 2013, 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 RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2013, certain leasehold land and buildings and plant and machinery of the Group with aggregate carrying values of approximately HK$36,100,000 (2012: HK$323,252,000) and approximately HK$33,373,000 (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$48,087,000 (2012: HK$516,947,000).

No plant and machinery of the Group was held under finance leases as at 30 June 2013 while the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$114,852,000 as at 30 June 2012.

No inventories were pledged as securities for bank borrowings as at 30 June 2013 while certain inventories with carrying values of approximately HK$70,735,000 were pledged as securities for bank borrowings as at 30 June 2012.

CAPITAL EXPENDITURE

During the year ended 30 June 2013, the Group invested approximately HK$26,714,000 (2012: HK$25,024,000) in property, plant and equipment, of which 15.0% (2012: 9.7%) was used for purchase of plant and machinery, 79.9% (2012: 83.0%) for construction of auxiliary facilities, and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2013, the Group had capital commitments of approximately HK$1,949,000 (2012: HK$20,058,000) in property, plant and equipment. The capital commitments for the year ended 30 June 2012 were funded by internally generated resources, finance leases and bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF POLICY

The Group had 502 employees altogether in the PRC and Hong Kong as at 30 June 2013. 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 required to make respective 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 employees.

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

EXECUTIVE DIRECTORS

Mr. Chen Jinyan（陳錦艷）, aged 44, is the Chairman of the Company and is responsible for the Group's operation and product development. Mr. Chen has over 22 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 and Mr. Chen Jinqing. 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 42, is a Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 19 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 and the elder brother of Mr. Chen Jinqing.

Mr. Chen Jinqing（陳錦慶）, aged 37, 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 19 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 52, 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 23 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. Yang Zeqiang（楊澤強）, aged 43, is appointed as an Independent Non-executive Director on 19 September 2012. Mr. Yang obtained a diploma in accounting and a bachelor's degree in accounting from Zhongyuan University of Technology（中原工學院）(formerly known as Zhengzhou Textile Institute（鄭州紡織工學院）) in 1992 and 2005, respectively. He is currently the financial controller of Zhengzhou Han Yuan Zhi Ye Company Limited（鄭州翰園置業有限公司）.

Mr. Yu Zhongming（俞忠明）, aged 78, 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 50 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 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2013 are set out in note 33 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2013 are set out in the consolidated statement of comprehensive income on page 30.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2013 (2012: Nil).

PROPERTY, PLANT AND EQUIPMENT

During the year, construction in progress of HK$2,213,000 (2012: HK$3,030,000) was completed and transferred to plant and machinery. The Group also acquired plant and machinery at a cost of HK$1,297,000 (2012: HK$2,046,000). 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 2013 comprised the retained profits of HK$12,435,000 (2012: HK$19,436,000). Details of movements in reserves and changes in equity of the Company during the year are set out in note 32 to the consolidated financial statements.

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. Yang Zeqiang *(appointed on 19 September 2012)*
Mr. Yu Zhongming
Mr. Lo Kin Chung

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Messrs. Chen Jinqing and Lo Kin Chung 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 2013 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 2013. Mr. Chen Jinqing was re-appointed by the board of directors on 1 February 2013 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 2014. The service agreement for Mr. Chen Jinyan expired on 31 August 2012 and he was re-appointed by the board of directors on 1 September 2012 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 2013, 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 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 ("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' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Long positions *(Continued)*

(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, 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 30 June 2013.

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 2013, 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
Cheung Pui Lam	Beneficial owner	103,840,000	9.97%
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 2013.

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 1.7.2012 and 30.6.2013
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.

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 54% (2012: 58%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 23% (2012: 27%) of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 61% (2012: 65%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 27% (2012: 37%) 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 ended 30 June 2013, 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 2013.

AUDITOR

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

On behalf of the Board

Chen Jinyan
CHAIRMAN

Hong Kong
27 September 2013

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving the best corporate governance practices as a listed company. The corporate governance policy aims to improve the accountability and transparency of the Group by fulfilling high standards and rigorous corporate governance practices. During the year ended 30 June 2013, the Group applied the principles and met the code provisions set out in the Corporate Governance Code (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 2013.

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. Yang Zeqiang	*(Independent Non-executive Director)* *(appointed on 19 September 2012)*
Mr. Lo Kin Chung	*(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.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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

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 2013, ten Board meetings were held and the attendance of all Directors at the Board meetings was as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	10/10
Mr. Chen Dong	10/10
Mr. Chen Jinqing	9/10
Mr. Lo Kin Chung	9/10
Mr. Yang Zeqiang *(appointed on 19 September 2012) (Note 1)*	7/10
Mr. Yu Zhongming	9/10
Mr. Huang Yongfeng *(resigned on 19 September 2012) (Note 2)*	2/10

Note 1: 7 Board meetings were held during the period from 19 September 2012 to 30 June 2013.

Note 2: 3 Board meetings were held during the period from 1 July to 19 September 2012.

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 2012 and the annual audit fee for the year ended 30 June 2013;
- 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;
- the appointment and resignation of the Independent Non-executive Director of the Company and relevant qualification and experience;
- publication of interim and annual results announcements; and
- the internal control review report of the Company.

Directors' training is an ongoing process and its purpose is to improve Directors' knowledge of, and performance in, business operations and compliance matters. During the year, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Moreover, all Directors are required to provide the Company with their respective training records.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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 also responsible for reviewing the effectiveness of the Group's internal control system. 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 2013, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

In addition, the Board 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. The audit committee also reviewed and was satisfied with the adequacy of the staffing of the financial reporting functions.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows of the Group for that period. The Directors ensure that the financial statements for the year ended 30 June 2013 were prepared in accordance with statutory requirements and applicable accounting standards. The financial statements were prepared on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. On the other hand, it is the responsibility of the auditor to form an independent opinion on these statements and to report their opinion to the Group.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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;

(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 that stated in specific written terms of reference had been discussed and approved in the Board meeting.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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. Yang Zeqiang (appointed on 19 September 2012), Mr. Yu Zhongming and Mr. Huang Yongfeng (resigned on 19 September 2012). Mr. Lo Kin Chung is a Certified Public Accountant and the chairman of the AC. The AC's terms of reference are posted on the websites of the Company and the Stock Exchange.

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.

In addition, the AC has been delegated by the Board to be responsible for performing the corporate governance duties that are listed as follows:

(a) to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;

(b) to perform the Company's corporate governance functions;

(c) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(e) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors of the Company; and

(f) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REPORT ON CORPORATE GOVERNANCE PRACTICES

AUDIT COMMITTEE *(Continued)*

During the financial year ended 30 June 2013, seven AC meetings were held and the attendance of its members was as follows:

Name of members	Attendance
Mr. Lo Kin Chung	7/7
Mr. Yang Zeqiang	7/7
Mr. Yu Zhongming	7/7

The following is a summary of the work performed by the AC during the year ended 30 June 2013 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;

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

- reviewed and monitored the external auditor's independence and engagement to perform non-audit services.

The chairman of the AC reports 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 2012 and the interim review for the period ended 31 December 2012 before the Board meeting.

The Group's audited consolidated financial statements for the year ended 30 June 2013 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. Yang Zeqiang (appointed on 19 September 2012), Mr. Yu Zhongming and Mr. Huang Yongfeng (resigned on 19 September 2012). Mr. Lo Kin Chung is the chairman of the RC. The RC's terms of reference are posted on the websites of the Company and the Stock Exchange.

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, proposing 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 RC performs an advisory role to the Board, with the Board retaining the final authority to approve key executives' remuneration.

The chairman of the RC reports the findings and recommendations of the RC to the Board after each meeting. During the financial year ended 30 June 2013, there were two RC meetings and the attendance of its members was as follows:

Name of members	Attendance
Mr. Lo Kin Chung	2/2
Mr. Yang Zeqiang	1/2
Mr. Yu Zhongming	2/2
Mr. Huang Yongfeng	1/2

The work performed by the RC during the year ended 30 June 2013 included the review of the remuneration policy for this financial year and the remuneration of Executive Directors and Independent Non-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. Yang Zeqiang (appointed on 19 September 2012), Mr. Yu Zhongming and Mr. Huang Yongfeng (resigned on 19 September 2012). Mr. Lo Kin Chung is the chairman of the NC. The NC's terms of reference are posted on the websites of the Company and the Stock Exchange.

REPORT ON CORPORATE GOVERNANCE PRACTICES

NOMINATION COMMITTEE *(Continued)*

The role and function of the NC include:

(a) to review the structure, size and composition of the Board at least annually and make recommendations to the Board regarding any proposed changes so as to complement the Company's corporate strategy;

(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 related 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;

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

(e) where the Board proposes a resolution to elect an individual as an Independent Non-executive Directors at the general meeting, the NC should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.

The chairman of the NC reports the findings and recommendations of the NC to the Board after each meeting. During the financial year ended 30 June 2013, there were two NC meetings and the attendance of its members was as follows:

Name of members	Attendance
Mr. Lo Kin Chung	2/2
Mr. Yang Zeqiang	1/2
Mr. Yu Zhongming	2/2
Mr. Huang Yongfeng	1/2

The NC recommended that one Executive Director, Mr. Chen Jinyan and two Independent Non-executive Directors, Mr. Yang Zeqiang and Mr. Yu Zhongming, retiring by rotation at the annual general meeting (the "AGM") held in November 2012, 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 Directors above offered themselves for re-election at the AGM held in November 2012. 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.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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 2013, the auditor's remuneration was HK$800,000.

(b) Non-audit service

The fee charged by DCC of interim review for the period ended 31 December 2012 was HK$210,000. DCC reviewed the interim financial statements and made a review conclusion. DCC also reviewed financial information for a major transaction in relation to the disposal of the Disposal Group by the end of December 2012 and the fee charged was HK$380,000.

COMMUNICATION WITH SHAREHOLDERS

The Board uses the AGM to communicate with shareholders and encourages their participation. At the AGM held in November 2012, 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 that are published on the websites of the Company and the Stock Exchange. Shareholders may at any time send their enquiries and concerns to the Board addressing to the Company Secretary of the Company by fax or by post to the Company's head office and principal place of business in Hong Kong as follows:

Art Textile Technology International Company Limited
Unit 1407, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong
Fax: +852 3106 6987

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the articles of association of the Company, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company deposited at the Company's head office and principal place of business in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

There are no provisions allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law (2011 Revision) or the articles of association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

REPORT ON CORPORATE GOVERNANCE PRACTICES

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.

The poll results will be published on the websites of the Stock Exchange and of the Company as soon as possible after conclusion of the general meeting, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following the general meeting.

CHANGES TO CONSTITUTIONAL DOCUMENTS

During the year ended 30 June 2013, there was no significant change in the Company's constitutional documents, and these documents are published 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 30 to 81, which comprise the consolidated statement of financial position as at 30 June 2013 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 disclosure requirements of 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 of the consolidated financial statements that give a true and fair view 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 2013 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
27 September 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

	NOTES	**2013 HK$'000**	2012 HK$'000
Turnover		**1,430,025**	2,106,147
Cost of sales		**(1,261,483)**	(1,907,833)
Gross profit		**168,542**	198,314
Other income	*8*	**9,459**	14,074
Gain on disposal of subsidiaries	*31*	**92,484**	–
Administrative expenses		**(41,539)**	(52,340)
Selling and distribution costs		**(22,739)**	(25,218)
Other expenses		**(3,142)**	(3,450)
Finance costs	*9*	**(45,452)**	(75,935)
Profit before tax		**157,613**	55,445
Income tax expense	*10*	**(35,740)**	(50,681)
Profit for the year	*11*	**121,873**	4,764
Other comprehensive income/(expenses)			
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		**23,896**	22,759
Other comprehensive income for the year (net of tax)		**9,768**	22,759
Total comprehensive income for the year		**131,641**	27,523
EARNINGS PER SHARE	*14*		
Basic (HK cents per share)		**11.71**	0.46
Diluted (HK cents per share)		**11.71**	0.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	NOTES	**2013 HK$'000**	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**95,533**	564,497
Prepaid lease payments	*16*	**19,116**	121,820
Deposits for acquisition of plant and equipment		**–**	3,972
		114,649	690,289
CURRENT ASSETS			
Inventories	*17*	**16,600**	151,690
Trade and other receivables	*18*	**76,480**	361,650
Pledged bank deposits	*19*	**48,087**	516,947
Bank balances and cash	*20*	**1,091,481**	990,434
		1,232,648	2,020,721
CURRENT LIABILITIES			
Trade and other payables	*21*	**156,824**	1,007,821
Tax liabilities		**4,876**	6,852
Secured bank borrowings	*22*	**130,696**	742,222
Obligations under finance leases	*23*	**–**	22,819
Deferred income	*24*	**–**	881
		292,396	1,780,595
NET CURRENT ASSETS		**940,252**	240,126
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,054,901**	930,415
CAPITAL AND RESERVES			
Share capital	*26*	**10,406**	10,406
Share premium and reserves		**1,035,652**	904,011
Equity attributable to owners of the Company		**1,046,058**	914,417
NON-CURRENT LIABILITIES			
Obligations under finance leases			
– due after one year	*23*	**–**	3,506
Deferred income	*24*	**–**	3,867
Deferred tax liabilities	*25*	**8,843**	8,625
		8,843	15,998
		1,054,901	930,415

The consolidated financial statements on pages 30 to 81 were approved and authorised for issue by the Board of Directors on 27 September 2013 and are signed on its behalf by:

Chen Jinyan
DIRECTOR

Chen Dong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

	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
Profit for the year	–	–	–	–	–	–	4,764	4,764
Other comprehensive income								
– Exchange differences arising on translation	–	–	–	22,759	–	–	–	22,759
Total comprehensive income for the year	–	–	–	22,759	–	–	4,764	27,523
At 30 June 2012 and 1 July 2012	10,406	165,838	136	181,271	68,044	2,598	486,124	914,417
Profit for the year	–	–	–	–	–	–	121,873	121,873
Other comprehensive income								
– Reclassification adjustments upon disposal of interests in subsidiaries	–	–	–	(14,128)	–	–	–	(14,128)
– Exchange differences arising on translation	–	–	–	23,896	–	–	–	23,896
Total comprehensive income for the year	–	–	–	9,768	–	–	121,873	131,641
At 30 June 2013	10,406	165,838	136	191,039	68,044	2,598	607,997	1,046,058

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 2013

	NOTES	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**121,873**	4,764
Adjustments for:			
Income tax expenses recognised in profit and loss		**35,740**	50,681
(Reversal)/allowance for doubtful debts		**(515)**	636
Depreciation of property, plant and equipment		**44,684**	67,122
(Gain)/loss on disposal of property, plant and equipment		**(32)**	113
Release of prepaid lease payments		**1,698**	2,885
Finance costs recognised in profit or loss		**45,452**	75,935
Interest income		**(8,486)**	(13,788)
Government grants deducted against depreciation		**(441)**	(881)
Gain on disposal of subsidiaries		**(92,484)**	–
Movements in working capital		**147,489**	187,467
Decrease in inventories		**36,610**	58,191
Decrease in trade and other receivables		**8,028**	20,798
Increase in trade and other payables		**36,121**	249,400
Cash from operations		**228,248**	515,856
Income tax paid		**(37,891)**	(48,146)
NET CASH FROM OPERATING ACTIVITIES		**190,357**	467,710
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(27,758)**	(20,037)
Placement of pledged bank deposits		**(230,130)**	(1,178,186)
Withdrawal of pledged bank deposits		**293,630**	1,007,518
Interest received		**8,486**	13,788
Proceeds on disposal of property, plant and equipment		**32**	383
Proceeds from government grants		**–**	1,370
Net cash inflow arising on disposal of subsidiaries	31	**2,852**	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**47,112**	(175,164)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	NOTES	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings raised		**441,727**	742,222
Repayment of bank borrowings		**(548,386)**	(816,172)
Repayment of obligations under finance leases		**(11,230)**	(21,166)
Interest paid on bank borrowings		**(44,482)**	(72,676)
Interest paid on finance leases		**(970)**	(3,259)
NET CASH USED IN FINANCING ACTIVITIES		**(163,341)**	(171,051)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**74,128**	121,495
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		**26,919**	21,773
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**990,434**	847,166
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	*20*	**1,091,481**	990,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands 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 33.

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 2012.

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

Except as described below, the application of the new and revised HKFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9 and 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10, 11 and 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, 12 and 27 (Amendments)	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
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]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[2]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[2]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]
HK(IFRIC) – Int 21	Levies[2]

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 *Property, Plant and Equipment* and the amendments to HKAS 32 *Financial Instruments: Presentation*.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 July 2013 and the application of these Standards will have no significant impact on amounts reported in respect of the Group's consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities.

Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

– obtain funds from one or more investors for the purpose of providing them with professional investment management services;

– commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

– measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 July 2015 and the application of the new Standard will have no significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 July 2013 and the application of the new Standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

Amendments to HKAS 36 reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The directors anticipate that HKAS 36 will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 January 2014 and the application of the new Standard will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The amendments to HKAS 39 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Group does not have any hedging activities.

HK(IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with HKAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

The directors anticipate that HK(IFRIC) – Int 20 will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 July 2013 and the application of the new Standard will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

HK(IFRIC) – Int 21 Levies

HK(IFRIC) – Int 21 *Levies* provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

– The liability is recognised progressively if the obligating event occurs over a period of time; and

– If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The directors anticipate that HK(IFRIC) – Int 21 will be adopted in the Group's consolidated financial statements for annual periods beginning on or after 1 July 2014 and the application of the new Standard will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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 Hong Kong Companies Ordinance (Chapter 32 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. Historical 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 2013

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 taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 in the consolidation statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building *(Continued)*

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. 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.

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 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 based on prevailing market interest rates.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure *(Continued)*

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. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 considered to be 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.

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, in addition, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

For financial assets measured at amortised cost, 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

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.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an 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 immediately in profit or loss.

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 that 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 of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

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.

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 2013, the carrying amount of trade receivables is HK$72,881,000 (2012: HK$164,032,000).

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 payments 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 2013

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables:		
Financial assets included in trade and other receivables	**75,334**	171,394
Pledged bank deposits	**48,087**	516,947
Bank balances and cash	**1,091,481**	990,434
	1,214,902	1,678,775
Financial liabilities		
Other financial liabilities at amortised cost:		
Trade and other payables	**156,824**	1,007,821
Secured bank borrowings	**130,696**	742,222
Obligations under finance leases	**–**	26,325
	287,520	1,776,368

(b) Financial risk management objectives and policies

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 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 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(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% (2012: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2012: 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% (2012: 5%) change in foreign currency rates.

The sensitivity analysis includes USD and HKD denominated trade and other receivables/payables 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% (2012: 5%) against the relevant currency. For a 5% (2012: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	HKD Impact *(Note)*		**USD Impact** *(Note)*	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Profit or loss	**(143)**	(57)	**4**	(33)

Note: This is mainly attributable to the exposure on USD or HKD trade and other receivables/payables and bank balances, as appropriate, at year end in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(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 points (2012: 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 (2012: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 30 June 2013 would decrease/increase by HK$58,000 (2012: decrease/increase by HK$294,000). 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 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 30 June 2013, 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 2013, the five largest receivable balances accounted for approximately 47% (2012: 69%) 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$940,252,000 as at 30 June 2013 (2012: HK$240,126,000). 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 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(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	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amounts at 30.6.2013
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2013							
Non-derivative financial liabilities							
Trade and other payables		60,206	25,316	71,302	–	156,824	156,824
Bank borrowings							
– fixed-rate	6.36	22,905	7,507	21,354	–	51,766	50,949
– floating-rate	7.90	–	32,063	49,052	–	81,115	79,747
		83,111	64,886	141,708	–	289,705	287,520

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amounts at 30.6.2012
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2012							
Non-derivative financial liabilities							
Trade and other payables		218,440	309,771	479,610	–	1,007,821	1,007,821
Bank borrowings							
– fixed-rate	7.75	11,183	97,540	253,424	–	362,147	346,913
– floating-rate	8.14	64,882	72,577	275,095	–	412,554	395,309
Obligations under finance leases	22.20	–	6,213	18,638	3,855	28,706	26,325
		294,505	486,101	1,026,767	3,855	1,811,228	1,776,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(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. From a product perspective, management assesses the performance from sales of cotton, 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 2013

7. SEGMENT INFORMATION *(Continued)*

	Cotton HK$'000	**Yarn HK'000**	**Garment fabrics HK$'000**	**Total HK$'000**
Year ended 30 June 2013				
Total sales	**632,495**	**68,987**	**732,217**	**1,433,699**
Inter-segment sales	**–**	**(3,674)**	**–**	**(3,674)**
Turnover (from external customers)	**632,495**	**65,313**	**732,217**	**1,430,025**
Segment results	**(4,066)**	**(61,108)**	**136,714**	**71,540**
Income tax expense				**(35,740)**
Central administration costs				**(6,411)**
Gain on disposal of subsidiaries				**92,484**
Profit for the year				**121,873**
Depreciation	**–**	**19,729**	**24,922**	**44,651**

	Cotton HK$'000	Yarn HK'000	Garment fabrics HK$'000	Total HK$'000
Year ended 30 June 2012				
Total sales	889,140	395,969	836,085	2,121,194
Inter-segment sales	–	(15,047)	–	(15,047)
Turnover (from external customers)	889,140	380,922	836,085	2,106,147
Segment results	(1,788)	(136,781)	199,435	60,866
Income tax expense				(50,681)
Central administration costs				(5,421)
Profit for the year				4,764
Depreciation	–	39,260	27,793	67,053

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 2013

8. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Bank interest income	8,486	13,788
Others	973	286
	9,459	14,074

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on		
– Bank borrowings wholly repayable within five years	44,482	72,676
– Finance leases	970	3,259
	45,452	75,935

10. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Income tax recognised in profit or loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	34,803	49,708
– Under provision in the prior years	937	973
	35,740	50,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

10. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax was calculated at 16.5% (2012: 16.5%) of the estimated assessable profit for the financial 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 was 25%.

As set out in note 25, no deferred tax (2012: Nil) has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries 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:

	2013 **HK$'000**	2012 HK$'000
Profit before tax	**157,613**	55,445
Tax at the income tax rate of 25% (2012: 25%)	**39,403**	13,861
Tax effect of expenses not deductible for tax purpose	**47,857**	5,836
Tax effect of income not taxable for tax purpose	**(69,493)**	(5,419)
Tax effect of deductible temporary differences not recognized	**17,036**	35,430
Underprovision in the previous years	**937**	973
Tax charge for the year	**35,740**	50,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

11. PROFIT FOR THE YEAR

	2013 **HK$'000**	2012 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments *(note 12)*	**4,678**	4,678
– other staff's salaries and other benefits	**28,599**	35,476
– other staff's retirement benefit scheme contributions	**4,013**	3,875
	37,290	44,029
(Reversal)/allowance for doubtful debts	**(515)**	636
Auditor's remuneration	**800**	800
Depreciation of property, plant and equipment	**44,684**	67,122
Exchange loss, net	**627**	1,266
Gain on disposal of subsidiaries	**(92,484)**	–
(Gain)/loss on disposal of property, plant and equipment	**(32)**	113
Release of prepaid lease payments	**1,697**	2,885
Research and development costs	**3,030**	1,423

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The employments paid or payable to each of the seven (2012: six) directors were as follows:

(a) Directors' emoluments

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

2013

	Directors' fees HK$'000	**Salaries and other benefits HK$'000**	**Retirement benefit scheme contributions HK$'000**	**Total HK$'000**
Mr. Chen Dong	**–**	**1,800**	**22**	**1,822**
Mr. Chen Jinyan	**–**	**1,440**	**22**	**1,462**
Mr. Chen Jinqing	**–**	**1,200**	**22**	**1,222**
Mr. Huang Yongfeng	**8**	**–**	**–**	**8**
Mr. Yu Zhongming	**36**	**–**	**–**	**36**
Mr. Lo Kin Chung	**100**	**–**	**–**	**100**
Mr. Yang Zeqiang	**28**	**–**	**–**	**28**
	172	**4,440**	**66**	**4,678**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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

(a) Directors' emoluments *(Continued)*

2012

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chen Dong	–	1,800	22	1,822
Mr. Chen Jinyan	–	1,440	22	1,462
Mr. Chen Jinqing	–	1,200	22	1,222
Mr. Huang Yongfeng	36	–	–	36
Mr. Yu Zhongming	36	–	–	36
Mr. Lo Kin Chung	100	–	–	100
	172	4,440	66	4,678

No directors waived any emoluments for both years.

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2013 included three (2012: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2012: two) individuals are as follows:

	2013 HK$'000	2012 HK$'000
Salaries and other benefits	**1,360**	1,271
Retirement benefit scheme contributions	**37**	34
	1,397	1,305

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 2013 nor has any dividend been proposed since the end of the reporting period (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

14. EARNINGS PER SHARE

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

	2013	2012
	HK$'000	HK$'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	**121,873**	4,764

	2013	2012
	'000	'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 the exercise prices of those options are higher than the average market prices for the Company's shares for both 2012 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 2011	346,451	481,937	2,433	11,025	20,438	862,284
Exchange realignment	8,550	11,900	53	267	505	21,275
Additions	–	2,046	–	1,049	21,929	25,024
Transfer	832	–	–	2,198	(3,030)	–
Disposals	–	(2,638)	–	–	–	(2,638)
At 30 June 2012	355,833	493,245	2,486	14,539	39,842	905,945
Exchange realignment	**9,014**	**4,060**	**55**	**165**	**1,196**	**14,490**
Additions	**–**	**1,297**	**–**	**34**	**25,383**	**26,714**
Transfer	**–**	**2,213**	**–**	**–**	**(2,213)**	**–**
Disposal	**–**	**(1,396)**	**(1,279)**	**(438)**	**–**	**(3,113)**
Disposal of subsidiaries	**(221,979)**	**(333,187)**	**–**	**(7,835)**	**(38,343)**	**(601,344)**
At 30 June 2013	**142,868**	**166,232**	**1,262**	**6,465**	**25,865**	**342,692**
ACCUMULATED DEPRECIATION						
At 1 July 2011	111,119	150,692	2,010	5,999	–	269,820
Exchange realignment	2,744	3,721	40	143	–	6,648
Provided for the year	15,054	49,340	247	2,481	–	67,122
Eliminated on disposals	–	(2,142)	–	–	–	(2,142)
At 30 June 2012	128,917	201,611	2,297	8,623	–	341,448
Exchange realignment	**2,761**	**2,615**	**59**	**965**	**–**	**6,400**
Provided for the year	**11,989**	**31,204**	**185**	**1,306**	**–**	**44,684**
Eliminated on disposals	**–**	**(1,396)**	**(1,279)**	**(438)**	**–**	**(3,113)**
Eliminated on disposals of subsidiaries	**(21,507)**	**(115,345)**	**–**	**(5,408)**	**–**	**(142,260)**
At 30 June 2013	**122,160**	**118,689**	**1,262**	**5,048**	**–**	**247,159**
CARRYING VALUES						
At 30 June 2013	**20,708**	**47,543**	**–**	**1,417**	**25,865**	**95,533**
At 30 June 2012	226,916	291,634	189	5,916	39,842	564,497

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 2013, certain buildings and plant and machinery of the Group with aggregate carrying values of HK$16,486,000 (2012: HK$202,341,000) and HK$33,372,000 (2012: HK$226,745,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

At 30 June 2013, no plant and machinery of the Group were held under finance leases (2012: HK$114,852,000).

16. PREPAID LEASE PAYMENTS

	2013 **HK$'000**	2012 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold interest in land under medium-term leases in the PRC	**19,614**	124,725
Analysed for reporting purposes as:		
Non-current assets	**19,116**	121,820
Current assets *(note 18)*	**498**	2,905
	19,614	124,725

At 30 June 2013, certain leasehold land with carrying values of HK$19,614,000 (2012: HK$120,911,000) were pledged to banks to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

17. INVENTORIES

	2013 HK$'000	2012 HK$'000
Raw materials	2,222	103,373
Work in progress	11,769	23,209
Finished goods	2,609	25,108
	16,600	151,690

At 30 June 2013, no inventories were pledged as securities for bank borrowings (2012: HK$70,735,000).

18. TRADE AND OTHER RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	73,614	165,249
Less: Allowance for doubtful debts	(733)	(1,217)
	72,881	164,032
Prepayment to suppliers	–	186,719
Others	3,101	7,994
Prepaid lease payments – current portion *(note 16)*	498	2,905
	76,480	361,650

As at 30 June 2013, no trade receivables of the Group were denominated in USD (2012: HK$496,000).

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:

	2013 HK$'000	2012 HK$'000
0 – 60 days	69,171	157,860
61 – 90 days	–	3,199
Over 90 days	3,710	2,973
Trade receivables	72,881	164,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 95% (2012: 98%) of the trade receivables that are neither past due nor impaired have good credit rating under the internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of HK$3,710,000 (2012: HK$2,973,000) 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 was between 0 days to 60 days (2012: 91 days to 120 days) for the year ended 30 June 2013.

Ageing of past due but not impaired:

Overdue by:	**2013** **HK$'000**	2012 HK$'000
1 – 60 days	**747**	602
61 – 90 days	**2,366**	871
Over 90 days	**597**	1,500
Total	**3,710**	2,973

The Group has reversed the impairment loss of HK$515,000 for the year ended 30 June 2013 (2012: impairment loss of HK$636,000). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	2013 **HK$'000**	2012 HK$'000
Balance at beginning of the year	**1,217**	567
Impairment loss recognised on receivables	**–**	636
Reversal of impairment loss recognised	**(515)**	–
Exchange realignment	**31**	14
Balance at end of the year	**733**	1,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 0.39% to 2.80% (2012: 3.05% to 4.40%) 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 0.35% (2012: 0.01% to 0.50%) 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:

	2013 **HK$'000**	2012 HK$'000
USD	**206**	159
HKD	**2,863**	1,148

21. TRADE AND OTHER PAYABLES

	2013 **HK$'000**	2012 HK$'000
Trade payables	**35,955**	46,596
Bill payables	**102,947**	916,428
Other payables	**17,922**	44,797
	156,824	1,007,821

The average credit period on trade payables was 45 days (2012: 45 days) for the year ended 30 June 2013. The average credit period on bill payables ranged from 90 days to 180 days (2012: 90 days to 180 days) for the year ended 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

21. TRADE AND OTHER PAYABLES *(Continued)*

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

	2013	2012
	HK$'000	HK$'000
0 – 60 days	**53,550**	514,823
61 – 90 days	**53,707**	60,765
Over 90 days	**31,645**	387,436
Trade and bill payables	**138,902**	963,024

22. SECURED BANK BORROWINGS

	2013	2012
	HK$'000	HK$'000
Carrying amount of bank borrowings that are wholly repayable within one year	**130,696**	742,222

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

	2013	2012
	HK$'000	HK$'000
Fixed-rate borrowings	**50,949**	346,913
Floating-rate borrowings	**79,747**	395,309
	130,696	742,222

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

	2013	2012
Effective interest rate:		
Fixed-rate borrowings	**6.160% to 7.800%**	6.560% to 10.000%
Floating-rate borrowings	**6.600% to 8.400%**	5.679% to 8.528%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

22. SECURED BANK BORROWINGS *(Continued)*

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's guarantee.

23. OBLIGATIONS UNDER FINANCE LEASES

As at 30 June 2012, it was the Group's policy to lease certain of its machinery and equipment under finance leases. The lease term was three years. Interest rate underlying all obligations under finance leases was fixed at respective contract date of 3.50% per annum. These leases had purchase options of HK$1,000 and had no terms of renewal and escalation clauses. No contingent rental payments and restrictions were imposed by lease arrangements. All obligations under finance leases had been disposed of upon the completion of the disposal of subsidiaries as set out in note 31.

	Minimum lease payments		Present value of minimum lease payments	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Amounts payable under finance leases:				
Within one year	–	24,851	–	22,819
More than one year but not more than two years	–	3,855	–	3,506
More than two years but not more than five years	–	–	–	–
	–	28,706	–	26,325
Less: Future finance charges	–	(2,381)	–	–
Present value of lease obligations	–	26,325	–	26,325
Less: Amount due within one year and shown under current liabilities			–	(22,819)
Amount due after one year			–	3,506

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 2013

24. DEFERRED INCOME

Analysed for reporting purposes as:	**2013** **HK$'000**	2012 HK$'000
Current liabilities	**–**	881
Non-current liabilities	**–**	3,867
	–	4,748

During the years ended 30 June 2010 and 30 June 2012, the Group received government grants of HK$5,227,000 and HK$1,370,000, respectively, towards the cost of purchase of plant and equipment for its manufacturing plant. The amounts are transferred to profit and loss over the useful lives of the relevant assets. This policy has resulted in a credit to expense in 2012 of HK$881,000. As at 30 June 2012, an amount of HK$4,748,000 remained 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 2011	8,417
Exchange realignment	208
Charge to profit or loss	–
At 30 June 2012 and 1 July 2012	8,625
Exchange realignment	**218**
Charge to profit or loss	**–**
At 30 June 2013	**8,843**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

26. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each, at 1 July 2011, 30 June 2012 and 30 June 2013		
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 2013

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 1.7.2011	Granted during the year	Cancelled during the year	Outstanding at 30.6.2012	Granted during the year	Cancelled during the year	Exercised during the year	Outstanding at 30.6.2013
Directors	10.7.2008	1.8.2008 to 31.7.2018	0.358	4,300,000	–	–	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	–	–	–	**14,300,000**
Granted Total				18,600,000	–	–	18,600,000	–	–	–	**18,600,000**
Exercisable at year end							18,600,000				**18,600,000**

28. OPERATING LEASE COMMITMENTS

The Group as lessee

	2013 HK$'000	2012 HK$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**2,315**	2,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

28. 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:

	2013	2012
	HK$'000	HK$'000
Within one year	**1,486**	1,714
In the second to fifth year inclusive	**1,863**	2,834
Over five years	**–**	–
	3,349	4,548

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 (2012: 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.

29. CAPITAL AND OTHER COMMITMENTS

	2013	2012
	HK$'000	HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of:		
– construction of buildings	**1,266**	20,058
– leasehold improvement	**683**	–
	1,949	20,058

30. RELATED PARTY TRANSACTIONS

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

	2013	2012
	HK$'000	HK$'000
Short-term benefits	**4,612**	4,612
Retirement benefit scheme contributions	**66**	66
	4,678	4,678

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 2013

31. DISPOSAL OF SUBSIDIARIES

On 11 December 2012, the Group entered into a conditional sale and purchase agreement to dispose of its equity interests in a few subsidiaries, Wide Launch Investment Limited, Well Master Enterprise Limited, Zhengzhou Hongye Textile Company 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
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)
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	6,173
Net cash inflow arising on disposal:	
Cash consideration received	6,173
Less: Bank balances and cash disposed of	(3,321)
	2,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

32. FINANCIAL INFORMATION OF THE COMPANY

	NOTES	**2013** **HK$'000**	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**12**	32
Investments in subsidiaries	*33*	**172,770**	172,770
		172,782	172,802
CURRENT ASSETS			
Trade and other receivables		**268**	268
Amounts due from subsidiaries	*33*	**253,690**	254,230
Bank balances and cash		**2,638**	822
		256,596	255,320
CURRENT LIABILITIES			
Trade and other payables		**650**	560
Amount due to a subsidiary	*33*	**44,596**	36,420
		45,246	36,980
NET CURRENT ASSETS		**211,350**	218,340
TOTAL ASSETS LESS CURRENT LIABILITIES		**384,132**	391,142
CAPITAL AND RESERVES			
Share capital	*26*	**10,406**	10,406
Share premium and reserves		**373,726**	380,736
Equity attributable to owners of the Company *(Note)*		**384,132**	391,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2013

32. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Note: Details of movements of the Company's share capital, share premium and reserves are as follows:

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2011	10,406	165,838	172,750	20,115	2,598	26,187	397,894
Loss for the year	–	–	–	–	–	(6,752)	(6,752)
Total comprehensive loss for the year	–	–	–	–	–	(6,752)	(6,752)
At 30 June 2012 and 1 July 2012	10,406	165,838	172,750	20,115	2,598	19,435	391,142
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(7,000)**	**(7,000)**
Other comprehensive loss							
– Reclassification adjustments upon disposal of interests in subsidiaries	**–**	**–**	**–**	**(10)**	**–**	**–**	**(10)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(10)**	**–**	**(7,000)**	**(7,010)**
At 30 June 2013	**10,406**	**165,838**	**172,750**	**20,105**	**2,598**	**12,435**	**384,132**

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2013 and 2012 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 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
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/sale of garment fabrics
Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng")*	PRC	US$4,000,000	**–**	–	**100**	100	Trial weaving of grey 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

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For the year ended 30 June 2013

33. PRINCIPAL SUBSIDIARIES *(Continued)*

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				Principal activities
			Directly		Indirectly		
			2013 %	2012 %	**2013** %	2012 %	
Well Master Enterprise Limited	Hong Kong	HK$1	**–**	–	**–*** **	100	Investment holding
Wide Launch Investment Limited	BVI	US$1 Ordinary share	**–**	–	**–*** **	100	Investment holding
Zhengzhou Hongye Textile Co., Ltd (“Zhengzhou Hongye”)*	PRC	HK$35,000,000	**–**	–	**–*** **	100	Manufacture/ sale of cotton and yarn
Zhengzhou Huatai Textile Co., Ltd. (“Zhengzhou Huatai”)**	PRC	RMB50,000,000	**–**	–	**–*** **	100	Manufacture/sale of cotton and 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.*

*** *These subsidiaries are disposed of by the Group on 31 December 2012. Details of the disposals are set out in note 31 to the consolidated financial statements.*

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

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
Turnover	615,011	801,646	902,658	2,106,147	**1,430,025**
Profit for the year	7,271	5,551	7,338	4,764	**121,873**

ASSETS AND LIABILITIES

	As at 30 June				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
Total assets	1,302,427	1,545,519	2,486,692	2,711,010	**1,347,297**
Total liabilities	(478,232)	(715,773)	(1,599,798)	(1,796,593)	**(301,239)**
Equity attributable to owners of the Company	824,195	829,746	886,894	914,417	**1,046,058**