



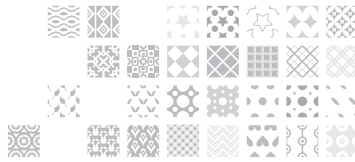
INTERIM  
REPORT  
2013



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)





## Corporate Information

### BOARD OF DIRECTORS

Mr. Chen Jinyan (*Chairman*)  
Mr. Chen Dong (*Chief Executive Officer*)  
Mr. Chen Jinqing  
Mr. Lin Ye\*  
Mr. Yang Zeqiang \*  
Ms. Yau Lai Ying\*

\* *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

Unit 1407, 14th Floor, China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central, Hong Kong  
Tel: +852 3106 5606  
Fax: +852 3106 6987  
Website: <http://arttextile.etnet.com.hk>

### 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

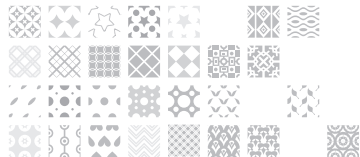
Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### PRINCIPAL BANKERS

China Merchants Bank  
Bank of China  
Ping An Bank  
Fujian Haixia Bank  
Standard Chartered Bank

### SHARE LISTING

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



## Report on Review of Interim Financial Information



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

錦藝紡織科技國際有限公司

*(incorporated in the Cayman Islands with limited liability)*

#### Introduction

We have reviewed the interim financial information set out on pages 3 to 19 which comprises the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2013 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Scope of review

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

#### Conclusion

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

#### Dominic K.F. Chan & Co.,

*Certified Public Accountants (Practising)*

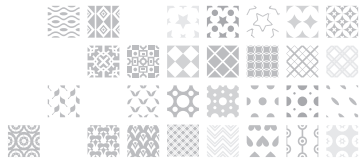
Rooms 2105-06, 21/F.,

Office Tower, Langham Place,

8 Argyle Street, Mongkok,

Hong Kong

28 February 2014

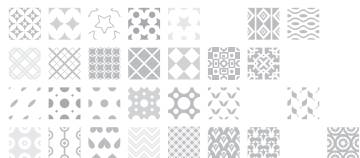


The board of directors (the “Board”) of Art Textile Technology International Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2013 (the “Period”), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2013

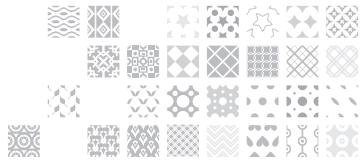
		Six months ended	
		31.12.2013 (unaudited) HK\$'000	31.12.2012 (unaudited) HK\$'000
<i>NOTES</i>			
Turnover		<b>274,537</b>	1,115,776
Cost of sales		<b>(214,654)</b>	(1,019,313)
Gross profit		<b>59,883</b>	96,463
Other income		<b>2,755</b>	6,073
Gain on disposal of subsidiaries	17	–	92,484
Administrative expenses		<b>(9,792)</b>	(28,080)
Selling and distribution costs		<b>(9,615)</b>	(12,470)
Other expenses		<b>(1,374)</b>	(1,597)
Finance costs	4	<b>(4,542)</b>	(36,485)
Profit before tax		<b>37,315</b>	116,388
Income tax expense	5	<b>(10,041)</b>	(23,299)
Profit for the period	6	<b>27,274</b>	93,089
Other comprehensive expense			
Reclassification adjustments relating to exchange difference upon disposal of interests in subsidiaries		–	(14,128)
Other comprehensive expense for the period (net of tax)		–	(14,128)
Total comprehensive income for the period		<b>27,274</b>	78,961
<b>EARNINGS PER SHARE</b>	<b>8</b>		
– Basic (HK cents per share)		<b>2.62</b>	8.95
– Diluted (HK cents per share)		<b>2.62</b>	8.95



## Condensed Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	31.12.2013 (unaudited) HK\$'000	30.6.2013 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	84,253	95,533
Prepaid lease payments		18,868	19,116
		<u>103,121</u>	<u>114,649</u>
<b>CURRENT ASSETS</b>			
Inventories		19,628	16,600
Trade and other receivables	10	63,761	76,480
Pledged bank deposits		34,443	48,087
Bank balances and cash		1,075,930	1,091,481
		<u>1,193,762</u>	<u>1,232,648</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	114,287	156,824
Tax liabilities		4,214	4,876
Secured bank borrowings	12	86,076	130,696
		<u>204,577</u>	<u>292,396</u>
<b>NET CURRENT ASSETS</b>		<u>989,185</u>	<u>940,252</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,092,306</u>	<u>1,054,901</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	10,406	10,406
Share premium and reserves		1,062,926	1,035,652
Equity attributable to owners of the Company		<u>1,073,332</u>	<u>1,046,058</u>
<b>NON-CURRENT LIABILITIES</b>			
Bond	18	10,131	–
Deferred tax liabilities		8,843	8,843
		<u>18,974</u>	<u>8,843</u>
		<u>1,092,306</u>	<u>1,054,901</u>

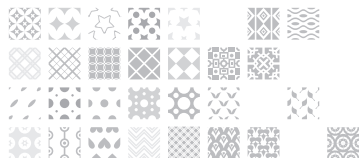


## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 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 2012	10,406	165,838	136	181,271	68,044	2,598	486,124	914,417
Other comprehensive expense	-	-	-	(14,128)	-	-	-	(14,128)
Profit for the period	-	-	-	-	-	-	93,089	93,089
Total comprehensive income for the period	-	-	-	(14,128)	-	-	93,089	78,961
At 31 December 2012	10,406	165,838	136	167,143	68,044	2,598	579,213	993,378
Other comprehensive income	-	-	-	23,896	-	-	-	23,896
Profit for the period	-	-	-	-	-	-	28,784	28,784
Total comprehensive income for the period	-	-	-	23,896	-	-	28,784	52,680
At 30 June 2013	10,406	165,838	136	191,039	68,044	2,598	607,997	1,046,058
Profit for the period	-	-	-	-	-	-	27,274	27,274
Total comprehensive income for the period	-	-	-	-	-	-	27,274	27,274
At 31 December 2013	10,406	165,838	136	191,039	68,044	2,598	635,271	1,073,332

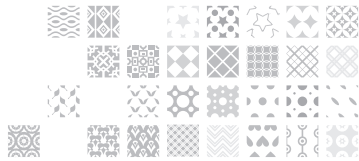
The statutory reserve fund is a reserve required by the relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiaries. Appropriations to such reserve are made out of profit for the period as per the statutory accounts of the PRC subsidiaries and the amount and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



## Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2013

	Six months ended	
	31.12.2013 (unaudited) HK\$'000	31.12.2012 (unaudited) HK\$'000
Net cash from operating activities	<u>8,586</u>	<u>124,309</u>
Net cash used in investing activities		
Purchase of property, plant and equipment	(1,334)	(18,870)
Deposits paid for acquisition of plant and equipment	–	(1,045)
Decrease in pledged deposits	13,643	67,332
Interest received	2,586	5,500
Net cash outflow on disposal of subsidiaries	–	(2,086)
	<u>14,895</u>	<u>50,831</u>
Net cash from financing activities		
Repayments of bank borrowings	(92,722)	(515,111)
Repayments of obligations under finance leases	–	(11,230)
Issue of bond	9,880	–
Interest paid on bank borrowings	(4,291)	(35,515)
Interest paid on finance leases	–	(970)
New bank borrowings raised	48,101	470,370
	<u>(39,032)</u>	<u>(92,456)</u>
Net (decrease)/increase in cash and cash equivalents	(15,551)	82,684
Cash and cash equivalents at the beginning of the period	<u>1,091,481</u>	<u>990,434</u>
Cash and cash equivalent at the end of the period represented by bank balances and cash	<u>1,075,930</u>	<u>1,073,118</u>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2013

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

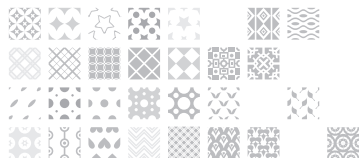
The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2013 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2013.

In the current period, the Group has applied, for the first time, a number of Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretation (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “new HKFRS(s)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on or after 1 July 2013.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRSs 10, 11 and 12 (Amendments)	Consolidation Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities





## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

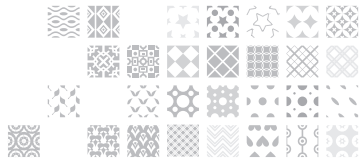
The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle <sup>2</sup>
HKFRSs 9 and 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKFRSs 10, 12 and 27 (Amendments)	Investment Entities <sup>1</sup>
HKFRS 9	Financial Instruments
HKFRSs 9, 7 and HKAS 39 (Amendments)	Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39)
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions <sup>2</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC) – Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016



## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

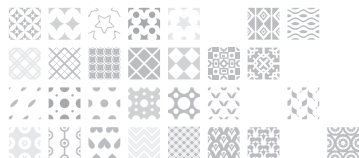
The directors of the Company anticipate that the application of these new or revised standards and amendments will have no material effect on how the results and the financial position of the Group are prepared and presented.

## 3. SEGMENT INFORMATION

Information reported to the Board, 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 currently assesses the performance from one single segment, which is sales of garment fabrics.

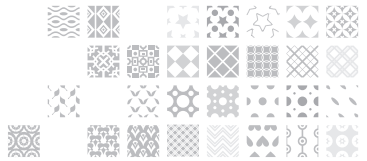
The chief operating decision makers assess the performance of each operating segment based on sales and net profit.

	Garment fabrics HK\$'000	Total HK\$'000
<b>Six months ended 31 December 2013</b>		
Total sales and turnover (from external customers)	<u>274,537</u>	<u>274,537</u>
Segment results	39,724	39,724
Income tax expense		(10,041)
Central administration costs		<u>(2,409)</u>
Profit for the period		<u>27,274</u>
Depreciation	<u>12,581</u>	<u>12,581</u>



### 3. SEGMENT INFORMATION *(Continued)*

	Cotton HK\$'000	Yarn HK'000	Garment fabrics HK\$'000	Total HK\$'000
<b>Six months ended 31 December 2012</b>				
Total sales	632,495	68,987	417,968	1,119,450
Inter-segment sales	—	(3,674)	—	(3,674)
Turnover (from external customers)	<u>632,495</u>	<u>65,313</u>	<u>417,968</u>	<u>1,115,776</u>
Segment results	(4,066)	(61,107)	92,593	27,420
Income tax expense				(23,299)
Central administration costs				(3,516)
Gain on disposal of subsidiaries				<u>92,484</u>
Profit for the period				<u>93,089</u>
Depreciation	<u>—</u>	<u>19,729</u>	<u>12,268</u>	<u>31,997</u>

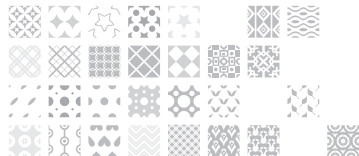


#### 4. FINANCE COSTS

	<b>Six months ended</b>	
	<b>31.12.2013</b>	31.12.2012
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	<b>4,291</b>	35,515
– Bond	<b>251</b>	–
– Finance leases	<b>–</b>	970
	<b>4,542</b>	36,485

#### 5. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>31.12.2013</b>	31.12.2012
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Income tax recognised in profit and loss		
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	<b>10,041</b>	23,299



## 5. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax is calculated at 16.5% (1.7.2012 to 31.12.2012: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 31 December 2012 and 2013.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

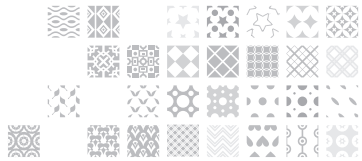
No provision for deferred tax has been recognised in the condensed consolidated financial statements as the amount involved is insignificant.

## 6. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2013 HK\$'000 (unaudited)	31.12.2012 HK\$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	12,582	32,027
Release of prepaid lease payments	249	1,443
Interest income	<u>(2,586)</u>	<u>(5,500)</u>

## 7. DIVIDEND PAID

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2012: Nil).



## 8. EARNINGS PER SHARE

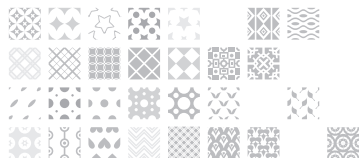
The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended</b>	
	<b>31.12.2013</b>	31.12.2012
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	<b>27,274</b>	93,089

	<b>Six months ended</b>	
	<b>31.12.2013</b>	31.12.2012
	<b>'000</b>	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,040,602</b>	1,040,602
Effect of dilutive potential ordinary shares in respect of share options	<b>2,222</b>	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,042,824</b>	1,040,602

The calculation of diluted earnings per share in 2012 had not assumed the exercise of the share options as these potential ordinary shares were anti-dilutive during 2012.

The computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market prices for the Company's shares for the period ended 31 December 2012.



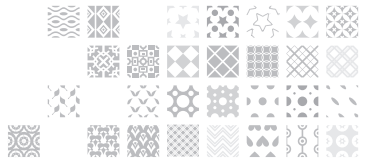
## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$1,334,000 (1.7.2012 to 31.12.2012: HK\$11,111,000) for construction costs for a new research and development centre in the PRC in order to upgrade its manufacturing capacities. Details of capital commitments were disclosed in note 15.

## 10. TRADE AND OTHER RECEIVABLES

The Group allows average credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	<b>31.12.2013</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2013 HK\$'000 (audited)
0 – 60 days	<b>58,475</b>	69,171
61 – 90 days	<b>1,316</b>	–
Over 90 days	–	3,710
	<hr/>	<hr/>
Trade receivables	<b>59,791</b>	72,881
Other receivables	<b>3,970</b>	3,599
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	<b>63,761</b>	76,480
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## 11. TRADE AND OTHER PAYABLES

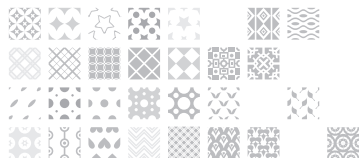
The following is an aged analysis of trade and bill payables based on the invoice date at the end of the reporting period:

	<b>31.12.2013</b>	30.6.2013
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
0 – 60 days	<b>27,063</b>	53,550
61 – 90 days	–	53,707
Over 90 days	<b>72,405</b>	31,645
	<hr/>	<hr/>
Trade and bill payables	<b>99,468</b>	138,902
Other payables	<b>14,819</b>	17,922
	<hr/>	<hr/>
	<b>114,287</b>	156,824
	<hr/>	<hr/>

## 12. SECURED BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK\$48,101,000 (1.7.2012 to 31.12.2012: HK\$163,580,000). The loans carried interests at fixed and floating rates and are repayable within a year.





### 13. SHARE CAPITAL

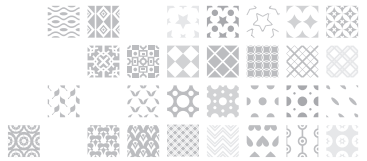
	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
Ordinary shares of HK\$0.01 each, at 1 July 2012, 1 July 2013 and 31 December 2013		
Authorised	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid	<u>1,040,602,583</u>	<u>10,406</u>

### 14. SHARE-BASED PAYMENTS

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

	<b>Number of share options</b>
Outstanding at 1 July 2012, 31 December 2012, 30 June 2013 and 31 December 2013	<u>18,600,000</u>

There was no movement for the period ended 31 December 2013.



## 15. CAPITAL AND OTHER COMMITMENTS

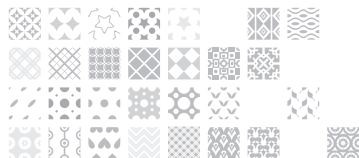
	<b>31.12.2013</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2013 HK\$'000 (audited)
Capital expenditures contracted but not provided for in the condensed consolidated financial statements in respect of		
– construction of buildings	–	1,266
– leasehold improvement	–	683
	<hr/>	<hr/>
	–	1,949
	<hr/>	<hr/>

## 16. RELATED PARTY TRANSACTIONS

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

	<b>Six months ended</b>	
	<b>31.12.2013</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2012 HK\$'000 (unaudited)
Short-term benefits	<b>2,311</b>	2,306
Retirement benefit scheme contributions	<b>33</b>	33
	<hr/>	<hr/>
	<b>2,344</b>	2,339
	<hr/>	<hr/>

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



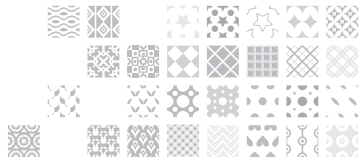
## 17. GAIN ON DISPOSAL OF SUBSIDIARIES

On 11 December 2012, the Group entered into a conditional sale and purchase agreement to dispose of its entire equity interest in its subsidiaries, Wide Launch Investment Limited, 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 manufacture or sale of cotton and yarn. The disposal was completed on 31 December 2012.

Six months  
ended  
31.12.2012  
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)
	<hr/>
	(72,183)
	<hr/>



## 17. GAIN ON DISPOSAL OF SUBSIDIARIES (Continued)

Six months  
ended  
31.12.2012  
HK\$'000

*Gain on disposal of subsidiaries:*

Total consideration	6,173
<i>Less:</i>	
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)
	<u>92,484</u>

*Total consideration satisfied by:*

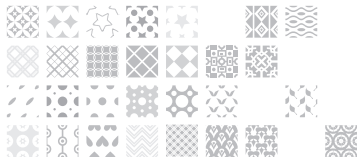
Cash consideration received	1,235
Cash consideration receivable	4,938
	<u>6,173</u>

*Net cash outflow arising on disposal:*

Cash consideration received	1,235
<i>Less:</i> Bank balances and cash disposed of	3,321
	<u>(2,086)</u>

## 18. BOND

On 10 July 2013, the Company issued unlisted and non-transferable bond of HK\$10,000,000 to an independent third party at face value with issuing costs of HK\$120,000. The bond is interest bearing at 8% per annum, unsecured and repayable on the seventh anniversary of the respective date of issue. The bond was initially recognised at HK\$9,862,000, the fair value valued by an external independent valuer, less issuing costs of HK\$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (1.7.2012 to 31.12.2012: Nil) per annum.



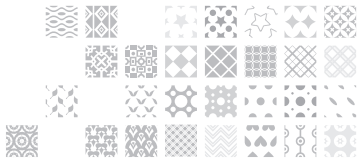
## Management Discussion and Analysis

### OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of garment fabrics targeting at mid-to-high-end markets both in the PRC and overseas during the Period. The Group has vertically integrated its production process to include research and development, grey fabric trial weaving, garment fabric dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's garment fabrics are used for manufacturing down wear, sportswear, household products such as sofas and curtains and men's and women's fashions. For the purpose of maintaining steady supply and better quality control of grey fabrics for the dyeing process, the Group designates some suppliers to produce these fabrics based on the samples researched and developed by it, which in turn broadens the varieties of down wear, sportswear and household products with different nature and consequently, enhances the market's demand for these products and therefore the Group's products.

In the end of December 2012, the Group disposed of a few subsidiaries principally engaged in the manufacture or sale of cotton and yarn (the "Disposal Group") 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 and the increase in raw material costs consequently reduced its total profits. In addition, the yarn market in the PRC remained weak in the past few years and market demand decreased which in turn significantly and continuously reduced the yarn production volumes of Zhengzhou Hongye Textile Company Limited and Zhengzhou Huatai Textile Company Limited when compared with those at the time of their acquisition. Furthermore, fixed production costs, such as salary and wages and depreciation costs, increased cost of production per ton and 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 the sales markets, the Group would participate in both local and overseas textile trade fairs so as to promote and sell its products to more customers.



### **Turnover**

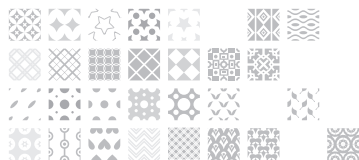
For the Period, the Group recorded a turnover of approximately HK\$274,537,000 (2012: HK\$1,115,776,000), approximately 75.4% less than that in 2012. The decrease in turnover was principally attributable to significant decrease in turnover of garment fabrics and no sales of cotton and yarns during the Period due to the disposal of the Disposal Group in the end of December 2012 as a result of their continuous gloomy business environment in the future, as well as their sales reduced significantly 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. During the Period, the decrease in turnover of garment fabrics 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 fabric manufacturers.

### **Gross Profit**

The gross profit margin of the Group was approximately 21.8% for the six months ended 31 December 2013, which compared with that for the six months ended 31 December 2012 of approximately 8.7%. The significant increase was due to the disposal of the Disposal Group in the end of December 2012, which in turn, released heavy burden on total cost of sales. The Disposal Group incurred substantial raw material costs for the six months ended 31 December 2012 owing to cotton cost control policies and restriction on import quota of low-priced overseas cotton implemented by the PRC government for the privileges of local cotton farmers. On the other hand, though there were higher labour charges for the garment fabrics segment during the Period, the benefits of the disposal of the unprofitable segments far outweighed the costs, which eventually increased the gross profit margin in certain extent.

### **Profit for the Period**

The Group's profit for the Period decreased significantly from the Group's profit for the six months ended 31 December 2012. The Group's profit was approximately HK\$27,274,000 (2012: HK\$93,089,000) for the six months ended 31 December 2013. The decrease was principally due to the gain on disposal of the Disposal Group, of approximately HK\$92,484,000, with its principal activities in the manufacture and sale of cotton and yarn which was disposed of in the end of December 2012 as a consequence of their significant amount of losses incurred and accumulated in the past few years and simultaneously lowered the aggregated profit and earnings of the Group. The net profit margin slightly increased from approximately 8.3% for the six months ended 31 December 2012 to 9.9% for the six months ended 31 December 2013 and such increase was principally due to less operation expenses incurred during the Period as a result of the disposal of the Disposal Group in the end of December 2012.



During the Period, the result of garment fabrics segment dropped due to 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 fabric manufacturers. Higher labour charges with a general rise of operating expenses arising from inflation also reduced the result of garment fabrics segment. For the six months ended 31 December 2012, save as the gain on disposal of subsidiaries, the cotton segment obtained negative result because of continuous fluctuation in raw material costs due to the involvement of the PRC government in the cotton market in order to protect the privileges of local cotton farmers and to regulate and supervise the general economic environment. As a result of the same reason and along with some internal and external factors, such as fixed production costs and contraction in market demand, the yarn segment incurred sizeable loss as well.

### **Other income**

The Group's other income for the Period was approximately HK\$2,755,000 (2012: HK\$6,073,000), which was approximately 54.6% less than that in 2012. Such decrease was attributable to a decrease in the balance of bank deposits throughout the Period.

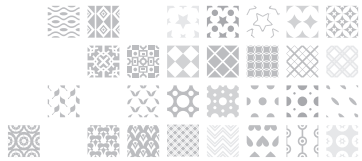
### **Expenses**

Administrative expenses amounted to approximately HK\$9,792,000 (2012: HK\$28,080,000), representing approximately 3.6% (2012: 2.5%) of the turnover for the Period. Administrative expenses decreased by approximately 65.1% when compared with that of 2012. It was due to no operation costs incurred by the Disposal Group as a consequence of its disposal in the end of December 2012.

Selling and distribution costs amounted to approximately HK\$9,615,000 (2012: HK\$12,470,000), representing approximately 3.5% (2012: 1.1%) of the turnover for the Period. Selling and distribution costs decreased by approximately 22.9% compared to those for the six months ended 31 December 2012, which was due to no 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\$1,374,000 (2012: HK\$1,597,000), representing approximately 0.5% (2012: 0.1%) of the turnover for the Period and remained steady when compared with the corresponding period in 2012.

Gain on disposal of subsidiaries amounted to approximately HK\$92,484,000, representing approximately 8.3% of the turnover for the six months ended 31 December 2012. 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\$4,542,000 (2012: HK\$36,485,000), representing approximately 1.7% (2012: 3.3%) of turnover for the Period. The substantial decrease was due to fewer bank loans and bills undertaken by the Group during the Period as a consequence of the disposal of the Disposal Group in the end of December 2012.

### **Dividend**

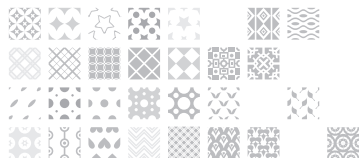
The Board does not recommend the payment of an interim dividend for the Period (2012: Nil).

### **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 center is built and in use just before the end of the Period. 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.

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 market 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.





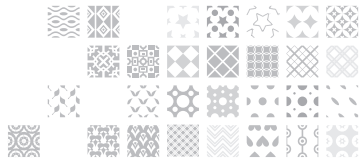
Looking forward, the Group will continue to set up new and modern machinery, reinforce the product development team, increase product mix, increase market promotion and distribution network in the PRC and overseas markets. The business growth of the Group is expected to accelerate and accordingly, the 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 31 December 2013, the Group had net current assets and total assets less current liabilities of approximately HK\$989,185,000 (30 June 2013: HK\$940,252,000) and HK\$1,092,306,000 (30 June 2013: HK\$1,054,901,000), respectively. The Group maintains a sound financial position by financing its operations with internally generated resources, bond, bills and bank loans. As at 31 December 2013, the Group had cash and bank deposits of approximately HK\$1,110,373,000 (30 June 2013: HK\$1,139,568,000). The current ratio of the Group was approximately 583.5% (30 June 2013: 421.6%).

Shareholders' fund of the Group as at 31 December 2013 was approximately HK\$1,073,332,000 (30 June 2013: HK\$1,046,058,000). As at 31 December 2013, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB68,000,000 were equivalent to HK\$86,076,000 (30 June 2013: HK\$130,696,000) and a bond measured at amortised cost was HK\$10,131,000 (30 June 2013: Nil). As at 31 December 2013, the gross debt gearing ratio (i.e. total borrowings and bond/shareholders' fund) was approximately 9.0% (30 June 2013: 12.5%).

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 31 December 2013, the total banking facilities of the Group amounted to approximately HK\$136,709,000 (30 June 2013: HK\$219,304,000), of which, approximately HK\$124,038,000 (30 June 2013: HK\$185,557,000) was utilized. In addition, a bond amounted to approximately HK\$10,131,000, measured at amortised cost, was arranged with an independent third party during the Period.

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.

## **CAPITAL STRUCTURE**

As at 31 December 2013, the share capital of the Company comprises ordinary shares only.

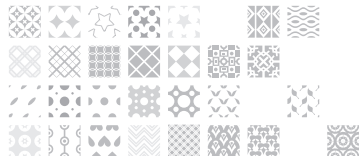
## **FOREIGN EXCHANGE RISK AND INTEREST RATE RISK**

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

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

## **CHARGE ON GROUP'S ASSETS**

As at 31 December 2013, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK\$30,155,000 (30 June 2013: HK\$36,100,000) and approximately HK\$29,803,000 (30 June 2013: HK\$33,373,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK\$34,443,000 (30 June 2013: HK\$48,087,000).



## **STAFF POLICY**

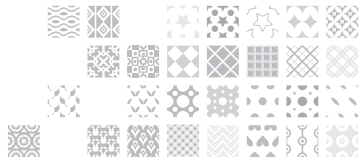
The Group had 433 employees altogether in the PRC and Hong Kong as at 31 December 2013. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group 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 19 September or 15 October each year.

## **CONTINGENT LIABILITIES**

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



## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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 (Cap. 571 of the Laws of Hong Kong) ("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 (the "Model Code"), were as follows:

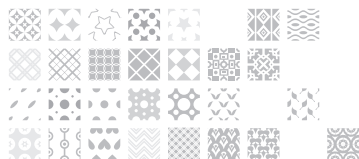
### Long positions

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Dong	Held by controlled corporation (Note 1)	332,170,000	31.92%
Mr. Chen Jinyan	Held by controlled corporation (Note 2)	249,740,000	24.00%

#### Notes:

- (1) The shares are held by Talent Crown Investment Limited, a company incorporated in the British Virgin Islands (the "BVI"), the entire issued share capital of which is beneficially owned by Mr. Chen Dong.
- (2) The shares are held by Fully Chain Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and both are executive directors.



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

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

Other than as disclosed above, none of the directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December 2013.

#### **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

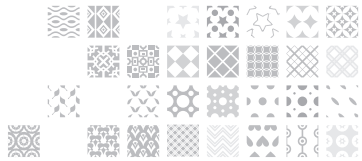
Save as disclosed under the section headed “Share options” below, at no time during the Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of,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

#### **DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE**

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

#### **SUBSTANTIAL SHAREHOLDERS**

As at 31 December 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 31 December 2013.

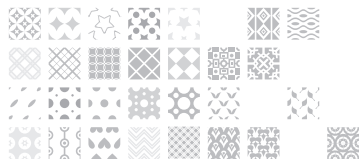
### SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the consolidated financial statements of the Company's 2013 annual report.

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

Grantee	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2013 and 31.12.2013
<b>Directors</b>				
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
<b>Employees</b>	10.7.2008	1.8.2008 to 31.7.2018	0.358	14,300,000
<b>Granted Total</b>				18,600,000

Note: Mr. Chen Jinqing is deemed to be interested in 2,400,000 share options granted to his spouse on 10 July 2008, to subscribe for 2,400,000 shares of the Company which may be exercised between 1 August 2008 and 31 July 2018 (both days inclusive) at an exercise price of HK\$0.358 per share.



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

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

## **CODE ON CORPORATE GOVERNANCE**

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the 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 Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the code of conduct and the required standard set out in the Model Code throughout the Period.

## **AUDIT COMMITTEE**

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

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

By order of the Board

**Chen Jinyan**

*Chairman*

Hong Kong

28 February 2014