



2014 INTERIM REPORT



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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)

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

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REGISTERED OFFICE

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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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Zhengzhou
Agricultural Bank of China
Industrial and Commercial Bank of China
Fujian Haixia 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 18 which comprises the condensed consolidated statement of financial position of Art Textile Technology International Company Limited and its subsidiaries as of 31 December 2014 and the related condensed consolidated statement of profit or loss and other 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
27 February 2015

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 2014 (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 Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2014

		Six months ended	
	NOTES	31.12.2014 (unaudited) HK\$'000	31.12.2013 (unaudited) HK\$'000
Turnover		296,115	274,537
Cost of sales		<u>(286,310)</u>	<u>(214,654)</u>
Gross profit		9,805	59,883
Other income		2,740	2,755
Administrative expenses		(11,503)	(9,792)
Selling and distribution costs		(4,880)	(9,615)
Other expenses		(312)	(1,374)
Finance costs	4	<u>(2,330)</u>	<u>(4,542)</u>
(Loss)/Profit before tax		(6,480)	37,315
Income tax expense	5	<u>(239)</u>	<u>(10,041)</u>
(Loss)/Profit for the period	6	(6,719)	27,274
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation		<u>11</u>	<u>–</u>
Other comprehensive income for the period (net of tax)		11	–
Total comprehensive (expenses)/income for the period		<u>(6,708)</u>	<u>27,274</u>
(LOSS)/EARNINGS PER SHARE	8		
– Basic (HK cents per share)		<u>(0.63)</u>	<u>2.62</u>
– Diluted (HK cents per share)		<u>(0.61)</u>	<u>2.62</u>

Condensed Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	31.12.2014 (unaudited) HK\$'000	30.6.2014 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	99,503	91,236
Prepaid lease payments		18,370	18,619
		<u>117,873</u>	<u>109,855</u>
CURRENT ASSETS			
Inventories		548	12,325
Trade and other receivables	10	476,781	351,476
Pledged bank deposits		25,316	25,316
Bank balances and cash		659,688	740,659
		<u>1,162,333</u>	<u>1,129,776</u>
CURRENT LIABILITIES			
Trade and other payables	11	58,568	82,272
Tax liabilities		2,356	2,880
Secured bank borrowings	12	44,304	56,962
		<u>105,228</u>	<u>142,114</u>
NET CURRENT ASSETS		<u>1,057,105</u>	<u>987,662</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,174,978</u>	<u>1,097,517</u>
CAPITAL AND RESERVES			
Share capital	13	12,486	10,406
Share premium and reserves		1,126,195	1,066,534
Equity attributable to owners of the Company		<u>1,138,681</u>	<u>1,076,940</u>
NON-CURRENT LIABILITIES			
Bonds	17	25,489	9,769
Deferred tax liabilities		10,808	10,808
		<u>36,297</u>	<u>20,577</u>
		<u>1,174,978</u>	<u>1,097,517</u>

Condensed Consolidated Statement of Changes In Equity

For the Six Months Ended 31 December 2014

	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 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
Loss for the period	-	-	-	-	-	-	(11,872)	(11,872)
Total comprehensive expense for the period	-	-	-	-	-	-	(11,872)	(11,872)
Recognition of equity-settled share-based payment	-	-	-	-	-	15,480	-	15,480
At 30 June 2014	10,406	165,838	136	191,039	68,044	18,078	623,399	1,076,940
Issue of shares (<i>note 13</i>)	2,080	67,600	-	-	-	-	-	69,680
Transaction costs attributable to issue of shares	-	(1,231)	-	-	-	-	-	(1,231)
Exchange differences arising on translation	-	-	-	11	-	-	-	11
Loss for the period	-	-	-	-	-	-	(6,719)	(6,719)
Total comprehensive expenses for the period	-	-	-	11	-	-	(6,719)	(6,708)
At 31 December 2014	12,486	232,207	136	191,050	68,044	18,078	616,680	1,138,681

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 2014

	Six months ended	
	31.12.2014 (unaudited) HK\$'000	31.12.2013 (unaudited) HK\$'000
Net cash (used in)/generated from operating activities	<u>(134,665)</u>	<u>8,586</u>
Net cash (used in)/generated from investing activities		
Purchase of property, plant and equipment	(17,817)	(1,334)
Proceeds from disposal of property, plant and equipment	551	–
Decrease in pledged deposits	–	13,643
Interest received	1,769	2,586
	<u>(15,497)</u>	<u>14,895</u>
Net cash generated from/(used in) financing activities		
Repayments of bank borrowings	(37,975)	(92,722)
Issue of bond	15,340	9,880
Proceeds from issue of shares	68,449	–
Interest paid on bank borrowings	(1,950)	(4,291)
New bank borrowings raised	25,316	48,101
	<u>69,180</u>	<u>(39,032)</u>
Net decrease in cash and cash equivalents	(80,982)	(15,551)
Effect of foreign exchange changes	11	–
Cash and cash equivalents at the beginning of the period	<u>740,659</u>	<u>1,091,481</u>
Cash and cash equivalent at the end of the period represented by bank balances and cash	<u>659,688</u>	<u>1,075,930</u>

Notes to The Condensed Consolidated Financial Statements

For the Six Months Ended 31 December 2014

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 2014 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2014.

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 2014.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle
HKFRSs 10, 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The application of the above new 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.

HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants ¹
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements ¹
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
HKFRS 9	Financial Instruments ³
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations ¹
HKFRS 14	Regulatory Deferral Accounts ¹
HKFRS 15	Revenue from Contracts with Customers ²

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

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

3. SEGMENT INFORMATION

Information reported to the Board of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Therefore, the chief operating decision maker only considers the Group's business from a product perspective, rather than from a geographic perspective. From a product perspective, management assesses the performance from textile products which includes garment fabrics and textile materials, and from property operating for the period ended 31 December 2014.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements of the Company's 2014 annual report. Segment result represents the profit or loss from each segment without allocation of income tax expense and central administration costs.

Three customers (2013: One customer) with each of their turnover amounted to 10 per cent or more of the Group's turnover for the periods ended 31 December 2014 and 31 December 2013. The total amount of turnover from the first customer was HK\$63,834,000 (2013: HK\$38,214,000), from the second customer was HK\$36,762,000 (2013: Nil) and from the third customer was HK\$33,040,000 (2013: Nil). All of them were from textile products segment.

The chief operating decision maker assesses the performance of the operating segments based on sales and net profit/(loss).

	Property operating HK\$'000	Textile products HK\$'000	Total HK\$'000
Six months ended 31 December 2014			
Turnover	–	296,115	296,115
Segment results	(3,583)	(197)	(3,780)
Income tax expense			(239)
Central administration costs			(2,700)
Loss for the period			(6,719)
Depreciation	–	(9,284)	(9,284)

3. SEGMENT INFORMATION *(Continued)*

	Textile products HK\$'000	Total HK\$'000
Six months ended 31 December 2013		
Turnover	<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>

4. FINANCE COSTS

	Six months ended	
	31.12.2014	31.12.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	1,950	4,291
– Bonds	380	251
	<u>2,330</u>	<u>4,542</u>

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2014	31.12.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Income tax recognised in profit and loss		
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	239	10,041
	<u>239</u>	<u>10,041</u>

5. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax was calculated at 16.5% (1.7.2013 to 31.12.2013: 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 2013 and 2014.

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. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2014	31.12.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	9,286	12,582
Release of prepaid lease payments	249	249
Interest income	(1,769)	(2,586)
	<hr/>	<hr/>

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 (2013: Nil).

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	31.12.2014	31.12.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to the owners of the Company and (loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	(6,719)	27,274

	Six months ended	
	31.12.2014	31.12.2013
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,074,516	1,040,602
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	29,574	2,222
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	1,104,090	1,042,824

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$17,817,000 (1.7.2013 to 31.12.2013: HK\$1,334,000) for construction costs of a drainage system and purchase costs of some machinery and equipment 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, which approximated the respective revenue recognition dates:

	31.12.2014 HK\$'000 (unaudited)	30.6.2014 HK\$'000 (audited)
0 – 90 days	18,100	77,078
Over 90 days	–	7,663
Trade receivables	18,100	84,741
Deposits to suppliers	81,912	263,635
Deposits paid for the acquisition (<i>note 18</i>)	374,468	–
Other receivables	1,803	2,602
Prepaid lease payments – current portion	498	498
	476,781	351,476

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:

	31.12.2014 HK\$'000 (unaudited)	30.6.2014 HK\$'000 (audited)
0 – 90 days	1,385	22,570
Over 90 days	50,729	51,400
Trade and bill payables	52,114	73,970
Other payables	6,454	8,302
	58,568	82,272

12. SECURED BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK\$25,316,000 (1.7.2013 to 31.12.2013: HK\$48,101,000). The loans carried interests at fixed rate and are repayable within a year.

13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each, at 1 July 2013, 1 July 2014 and 31 December 2014	2,000,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each, at 1 July 2013 and 1 July 2014	1,040,602,583	10,406
Issue of shares (<i>Note</i>)	<u>208,000,000</u>	<u>2,080</u>
At 31 December 2014	<u>1,248,602,583</u>	<u>12,486</u>

Note: Pursuant to the placing agreement dated 12 November 2014, 208,000,000 new ordinary shares of the Company of HK\$0.01 each were issued to several independent third parties by placing at a price of HK\$0.335 per share on 2 December 2014.

14. SHARE-BASED PAYMENTS

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

	Number of share options
Outstanding at 1 July 2013 and 31 December 2013	18,600,000
Granted during the period	<u>104,000,000</u>
Outstanding at 30 June 2014 and 1 July 2014	122,600,000
Granted during the period	<u>—</u>
Outstanding at 31 December 2014	<u>122,600,000</u>

15. CAPITAL AND OTHER COMMITMENTS

	31.12.2014 HK\$'000 (unaudited)	30.6.2014 HK\$'000 (audited)
Capital expenditures contracted but not provided for in the condensed consolidated financial statements in respect of plant and machinery	8,899	7,716

16. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	31.12.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (unaudited)
Short-term benefits	1,896	2,311
Retirement benefit scheme contributions	33	33
	1,929	2,344

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. BONDS

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 cost of HK\$120,000. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the seventh anniversary of the date of issue. The bond was initially recognised at HK\$9,862,000 less issuing cost of HK\$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (1.7.2013 to 31.12.2013: 8.33%) per annum.

On 13 August 2014, the Company issued two unlisted and non-transferable bonds at face value of HK\$5,340,000 and HK\$10,000,000 to two independent third parties. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK\$15,309,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.05% (1.7.2013 to 31.12.2013: Nil) per annum.

During the period, interests on the bonds were owned by the Company of approximately HK\$877,000 (1.7.2013 to 31.12.2013: HK\$384,000).

18. EVENT AFTER THE REPORTING PERIOD

During the period, the Group entered a sale and purchase agreement (the “Sale and Purchase Agreement”) with two independent third parties under which the Group has conditionally committed to acquire 75% equity interests of a target company incorporated in the PRC. Such PRC company is engaged in property investment, general management and agency in the PRC. The purchase consideration is RMB591,660,000 (equivalent to approximately HK\$748,937,000) and which is to be satisfied by cash. Completion of the acquisition is conditional upon fulfilment of all the conditions precedent under the Sale and Purchase Agreement. As at 31 December 2014, a refundable deposit of 50% of the consideration, being RMB295,830,000 (equivalent to approximately HK\$374,468,000), had been paid by the Group. Since the acquisition is subject to completion and is still in progress, the Group is unable to measure any possible goodwill or gain from bargain purchase as at the date of this report. Besides, the directors considered that it is not practicable to disclose the financial information of the target company at this stage.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group was principally engaged in the manufacture and sale of garment fabrics targeting at mid-to-high-end markets in the PRC during the Period. The Group had 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 were 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 designated some suppliers to produce these fabrics based on the samples researched and developed by it. The Group also processed the dyeing of grey fabrics provided by its customers before the end of the Period.

Furthermore, the Group diversified its operations into different businesses during the Period and resources had been put into trading of textile materials, such as cotton, and property operating aspects in order to explore future prospects and develop relevant markets. Therefore, the Board announced that on 18 December 2014, an indirect wholly-owned PRC subsidiary of the Company entered into a sale and purchase agreement with two independent third parties in connection with the acquisition of 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) (the "Target Company"), of which, its major asset is a shopping mall in the People's Republic of China (the "PRC"), at a cash consideration of RMB591,660,000 (equivalent to approximately HK\$748,937,000). The Target Company is engaged in property investment, general management and agency in the PRC. For further details of the Acquisition, please refer to the announcement of the Company dated 18 December 2014 and the circular of the Company dated 30 January 2015.

Turnover

For the Period, the Group recorded a turnover of approximately HK\$296,115,000 (2013: HK\$274,537,000), approximately 7.9% more than that in 2013. The increase in turnover of the textile products segment, which composed of garment fabrics and textile materials, was due to the sales of textile materials which commenced just before the end of the year ended 30 June 2014. More than half of the turnover was earned from the sales of textile materials, such as cotton. However, turnover of garment fabrics dropped significantly, due to a slowdown in the PRC's textile industry as a consequence of a fall in textile and garment prices in the second half year of 2014 which was attributable to the slow recovery of the global economy and reduction of demand in both domestic and overseas textile and garment markets. Downstream customers have adopted a cautious approach in purchasing and a chain reaction has thereby occurred, which in turn affected each upper level of upstream suppliers to place orders to their own immediate level of suppliers, and eventually caused a negative impact on the sales volume and selling prices of the Group's textile products, of which, the Group is one of the upstream manufacturers in the textile industry in the PRC. A decrease in the Group's sales volume of garment fabrics and textile materials accordingly impacted its revenue along with a decline in selling prices of the Group's garment fabrics and textile materials. On the other hand, the Sale and Purchase Agreement was entered by the Group on 18 December 2014 in connection with the acquisition of 75% equity interests in the Target Company, of which, its major asset is a shopping mall in the PRC. Since the Acquisition was not yet completed as at 31 December 2014, no turnover of the property operating segment was recorded.

Gross Profit

The gross profit margin of the Group was approximately 3.3% for the six months ended 31 December 2014, while that for the six months ended 31 December 2013 was approximately 21.8%. The substantial decrease was due to a number of adverse factors including the slow recovery of the global economy, reduction of demand in both domestic and overseas textile markets, the downward cotton price expectations and a cautious purchasing approach adopted by downstream customers, which impaired the selling prices and sales volume of the Group's garment fabrics. The trading of textile materials tended to have lower gross profit margin than sale of garment fabrics, therefore, the Group's gross profit margin had reduced during the Period as more than half of the turnover was earned from the sale of textile materials. In addition, some fixed production costs, such as salaries and wages and depreciation costs, increased the average cost of production which in turn also brought down the gross profit margin.

Loss for the Period

The Group incurred loss for the Period while the Group had recorded a profit for the six months ended 31 December 2013. The Group's loss during the Period was approximately HK\$6,719,000 (profit in 2013: HK\$27,274,000). The material decrease for the textile products segment was due to a number of adverse factors happened during the Period including the slow recovery of the global economy, reduction of demand in both domestic and overseas textile markets, the downward cotton price expectations and a cautious purchasing approach adopted by downstream customers, which greatly reduced the selling prices and sales volume of the Group's textile products. The loss in the property operating segment was due to more resources had been contributed to develop this area of business during the Period. Some related expenses incurred for the Acquisition while the Acquisition was not yet completed as at 31 December 2014. The profit margin decreased from approximately 9.9% for the six months ended 31 December 2013 to the loss margin of 2.3% for the six months ended 31 December 2014 and such substantive decrease was due to the same reasons mentioned above.

Other income

The Group's other income for the Period was approximately HK\$2,740,000 (2013: HK\$2,755,000), which was approximately 0.5% less than that in 2013. Other income remained steady when compared with the corresponding period in 2013.

Expenses

Administrative expenses amounted to approximately HK\$11,503,000 (2013: HK\$9,792,000), representing approximately 3.9% (2013: 3.6%) of turnover for the Period. Administrative expenses increased by approximately 17.5% when compared with that of 2013 because some related expenses for the Acquisition were incurred during the Period.

Selling and distribution costs amounted to approximately HK\$4,880,000 (2013: HK\$9,615,000), representing approximately 1.6% (2013: 3.5%) of turnover for the Period. Selling and distribution costs decreased by approximately 49.2% compared to those for the six months ended 31 December 2013, which was due to the closure of the sales outlets in major cities of the PRC as a consequence of the dim view and prospect of future textile industry trend.

Other expenses amounted to approximately HK\$312,000 (2013: HK\$1,374,000), representing approximately 0.1% (2013: 0.5%) of turnover for the Period. The decrease was due to streamline headcounts in the research and development department during the Period as a consequence of the dim view and prospect of future textile industry trend.

Finance costs amounted to approximately HK\$2,330,000 (2013: HK\$4,542,000), representing approximately 0.8% (2013: 1.7%) of turnover for the Period. The decrease was due to fewer bank loans and bills undertaken by the Group throughout the Period than the corresponding period in 2013.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2013: Nil).

FUTURE PLANS AND PROSPECTS

Since the textile industry in the PRC faces significant challenges and uncertainties in the business environment, the Group's current strategic plan is to concentrate only on the dying process of grey fabrics. Customers with long term business relationship with the Group and new customers process the dying procedure of their own synthetic and cotton grey fabrics by the Group's existing state-of-the-art dyeing machinery and equipment. In this case, the Group is still able to use its advanced dying technology to maintain its position in the market during the hard time of the textile industry in the PRC. Instead, the sales outlets in major cities of the PRC are closed down in order to further limit the Group's operating expenditures and strategy its future financial plan more efficiently. The Group has continuously implemented conservative and stringent cost control policies so as to ensure sufficient working capital by imposing control over operating costs and capital expenditure and strengthening accounts receivable management.

The PRC's macro economy is still considered to be growing fairly steadily. Economic, financial and social reforms covering a wide range of areas will drive the economy and the society towards a more healthy and sustainable development. The PRC government's focus is on targeted control measures to ensure a moderate to high pace of growth while continuing its economic restructuring. By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to meet the needs of dynamic textile markets, explore new market potentials and increase profit margin. Furthermore, the Company intends to manage and operate the property operating segment by the current caliber management and skillful employees of the Target Company.

Looking forward, the Group will remain to focus on its current textile business by setting up new and modern machinery and enhancing market promotion in textile market. The Group will also place additional resources to realise growth momentum from the development of property operating market. The shopping mall is situated in Zhengzhou Shi and with good economic and demographic fundamentals; hence, the Acquisition will be a milestone for the Group to diversify its business operations into property operating market. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future with full recovery of the worldwide economy. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in the long term, which in return for the continuing trust and support bestowed to the Company by its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had net current assets and total assets less current liabilities of approximately HK\$1,057,105,000 (30 June 2014: HK\$987,662,000) and HK\$1,174,978,000 (30 June 2014: HK\$1,097,517,000), respectively. The Group maintains a sound financial position by financing its operations with internally generated resources, bonds, bills, bank loans and net proceeds from the Placing (as defined below). As at 31 December 2014, the Group had cash and bank deposits of approximately HK\$685,004,000 (30 June 2014: HK\$765,975,000). The current ratio of the Group was approximately 1,104.6% (30 June 2014: 795.0%).

Shareholders' fund of the Group as at 31 December 2014 was approximately HK\$1,138,681,000 (30 June 2014: HK\$1,076,940,000). As at 31 December 2014, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB35,000,000 were equivalent to HK\$44,304,000 (30 June 2014: HK\$56,962,000) and three bonds measured at amortised cost was HK\$25,489,000 (30 June 2014: HK\$9,769,000). As at 31 December 2014, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 6.1% (30 June 2014: 6.2%).

On 2 December 2014, the Company completed a placing of 208,000,000 ordinary shares of HK\$0.01 each at a placing price of HK\$0.335 per share to not less than six placees in accordance with the placing agreement dated 12 November 2014 (the “Placing”). The placees and their ultimate beneficial owners are independent third parties. For further details of the Placing, please refer to the announcements of the Company dated 12 November 2014 and 25 November 2014, respectively. The net proceeds from the Placing after deducting commission and Placing expenses were approximately HK\$68,449,000. The Board was of the view that the Placing was in the interests and for the benefit of the Company and its shareholders as a whole because the Placing on one hand raised additional funds to the Group to support its investments in property operating projects and on the other hand had not increased the finance cost of the Group. As at 31 December 2014, all the net proceeds from the Placing had been utilized to settle part of the consideration of the Acquisition which was incorporated in the PRC and is engaged in property investment, general management and agency in the PRC.

The Group has maintained and will continue to maintain a 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 2014, the total banking facilities of the Group amounted to approximately HK\$94,937,000 (30 June 2014: HK\$94,937,000), of which, approximately HK\$69,620,000 (30 June 2014: HK\$82,278,000) was utilized. In addition, as at 31 December 2014, three bonds amounted to approximately HK\$25,489,000 (30 June 2014: HK\$9,769,000), measured at amortised cost, were arranged with three independent third parties.

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

CAPITAL STRUCTURE

As at 31 December 2014, 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 2014, certain leasehold land and buildings of the Group with aggregate carrying values of approximately HK\$45,271,000 (30 June 2014: HK\$49,294,000) were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK\$25,316,000 (30 June 2014: HK\$25,316,000).

STAFF POLICY

The Group had 351 employees altogether in the PRC and Hong Kong as at 31 December 2014. 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.

Each of the three independent non-executive directors of the Company is appointed for a term of one year commencing from either 19 September or 15 October each year.

CONTINGENT LIABILITIES

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, 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 (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 spouse (<i>Note 1</i>)	162,170,000	12.99%
Mr. Chen Jinyan	Held by controlled corporation (<i>Note 2</i>)	296,740,000	23.77%
Mr. Chen Jinqing	Held by controlled corporation (<i>Note 3</i>)	83,000,000	6.65%

Notes:

- (1) The shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the “BVI”), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Dong, Ms. Lin Lin. Mr. Chen Dong is deemed to be interested in 162,170,000 shares of the Company.
- (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.
- (3) The shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Dong. All three of them are executive directors of the Company.

(b) *Share options*

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	1,900,000	1,900,000
Mr. Chen Jinqing	Held by spouse (<i>Note 1</i>)	2,400,000	2,400,000
Mr. Lin Ye	Beneficial owner	1,040,000	1,040,000
Mr. Yang Zeqiang	Beneficial owner	1,040,000	1,040,000
Ms. Yau Lai Ying (<i>Note 2</i>)	Beneficial owner	1,040,000	1,040,000

Notes:

- (1) 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.
- (2) Ms. Yau Lai Ying was appointed as the independent non-executive director of Jicheng Umbrella Holdings Limited (Stock code: 1027) on 23 January 2015.

Other than as disclosed above, none of the Company's 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 2014.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, 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
Lin Lin	Beneficial owner and interest in a controlled corporation	162,170,000	12.99%
Dresdner VPV N.V.	Investment manager	69,877,600	5.60%

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 2014.

SHARE OPTIONS

Particulars of the Company’s share option scheme are set out in note 26 to the consolidated financial statements of the Company’s 2014 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 July 2014 and 31 December 2014
Directors				
Mr. Chen Jinyan	10.7.2008	1.8.2008 to 31.7.2018	0.358	1,900,000
Mr. Chen Jinqing	10.7.2008	1.8.2008 to 31.7.2018	0.358	2,400,000
Mr. Lin Ye	22.5.2014	22.5.2014 to 21.5.2024	0.331	1,040,000
Mr. Yang Zeqiang	22.5.2014	22.5.2014 to 21.5.2024	0.331	1,040,000
Ms. Yau Lai Ying	22.5.2014	22.5.2014 to 21.5.2024	0.331	<u>1,040,000</u>
				<u>7,420,000</u>
Employees				
	10.7.2008	1.8.2008 to 31.7.2018	0.358	14,300,000
	22.5.2014	22.5.2014 to 21.5.2024	0.331	<u>100,880,000</u>
				<u>115,180,000</u>
Granted Total				<u>122,600,000</u>

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 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 standard 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 of 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 established 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 the independent non-executive directors of the Company.

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

By order of the Board

Chen Jinyan

Chairman

Hong Kong

27 February 2015