



HG · 錦藝紡

**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)*

**(Stock Code: 565)**

**2007 ANNUAL RESULTS ANNOUNCEMENT**

The board of directors (the “Board”) of Art Textile Technology International Company Limited (the “Company”) is pleased to announce the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2007 together with the comparative figures in 2006 as follows:

**Consolidated Income Statement**

For the year ended 30 June 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Turnover		<b>645,575</b>	615,767
Cost of sales		<b>(460,906)</b>	(435,834)
Gross profit		<b>184,669</b>	179,933
Other income		<b>5,370</b>	5,173
Selling and distribution costs		<b>(18,326)</b>	(18,221)
Administrative expenses		<b>(18,946)</b>	(14,190)
Other expenses		<b>(3,992)</b>	(4,527)
Loss on changes in fair value of convertible notes		<b>(15,663)</b>	(9,765)
Finance costs		<b>(1,097)</b>	(1,063)
Profit before tax		<b>132,015</b>	137,340
Income tax expense	3	<b>(45,990)</b>	(44,994)
Profit for the year	4	<b>86,025</b>	92,346
Dividends paid	5	<b>17,532</b>	21,914
Earnings per share	6		
Basic, in Hong Kong cents		<b>9.73</b>	10.54
Diluted, in Hong Kong cents		<b>9.71</b>	9.53

# Consolidated Balance Sheet

At 30 June 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>133,164</b>	145,166
Prepaid lease payments – non-current portion		<b>14,105</b>	14,012
Pledged bank deposits		–	39,007
Deposits for acquisition of plant and equipment		<b>2,099</b>	–
		<b>149,368</b>	198,185
<b>CURRENT ASSETS</b>			
Inventories		<b>25,729</b>	28,163
Trade and other receivables	7	<b>62,529</b>	61,306
Prepaid lease payments – current portion		<b>327</b>	317
Pledged bank deposits		<b>3,473</b>	4,314
Bank balances and cash		<b>487,659</b>	340,735
		<b>579,717</b>	434,835
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	<b>58,031</b>	56,592
Tax liabilities		<b>19,667</b>	17,112
Bank borrowings, secured		<b>10,000</b>	16,074
		<b>87,698</b>	89,778
<b>NET CURRENT ASSETS</b>			
		<b>492,019</b>	345,057
		<b>641,387</b>	543,242
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>10,406</b>	8,766
Dividend reserve		<b>10,406</b>	8,766
Share premium and other reserves		<b>620,575</b>	442,720
		<b>641,387</b>	460,252
<b>NON-CURRENT LIABILITY</b>			
Convertible notes		–	82,990
		<b>641,387</b>	543,242

# Notes to The Consolidated Financial Statements

For the year ended 30 June 2007

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Talent Crown Investment Limited, incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, because the Company's shares are listed in Hong Kong.

The Company is an investment holding company.

## 2. SEGMENT INFORMATION

No analysis on business segment is provided as substantially all the Group's turnover and segment results were derived from the manufacture and sale of finished woven fabrics. In addition, no geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the People's Republic of China (the "PRC") and the assets are substantially located in the PRC.

## 3. INCOME TAX EXPENSE

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<hr/>		
PRC Foreign Enterprise Income Tax ("FEIT"):		
Current tax	<b>45,990</b>	42,702
Underprovision in the prior year	–	2,292
	<hr/> <b>45,990</b>	<hr/> 44,994

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Fuzhou Huaguan Knitting and Springing Co., Ltd. ("Fuzhou Huaguan") and Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng") are subsidiaries of the Company established in the PRC. Fuzhou Huasheng is exempted from the FEIT for two years starting from its first profit-making year of operations and thereafter is eligible for 50% relief from FEIT for the following three years under the relevant rules and regulations of the PRC. The tax exempt period of Fuzhou Huasheng expired on 31 December 2006 and its applicable preferential tax rate, which is 50% relief for the following three years, was 15% for the period from 1 January 2007 to 30 June 2007.

The applicable tax rate for Fuzhou Huaguan was 27% for the year ended 30 June 2007.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>132,015</b>	137,340
Tax at the income tax rate of 27%	<b>35,644</b>	37,082
Tax effect of expenses not deductible for tax purpose	<b>9,110</b>	5,228
Tax effect of income not taxable for tax purpose	<b>(1,462)</b>	(903)
Effect of tax losses not allowable by Hong Kong tax authority	<b>2,698</b>	1,295
Underprovision in respect of the prior year	–	2,292
Tax charge for the year	<b>45,990</b>	44,994

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

#### 4. PROFIT FOR THE YEAR

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	<b>820</b>	820
Staff costs		
– directors' emoluments	<b>4,390</b>	4,040
– other staff costs	<b>12,570</b>	11,292
– other staff's retirement benefit scheme contributions	<b>1,501</b>	1,491
– other staff's share-based payment	<b>1,429</b>	–
	<b>19,890</b>	16,823
(Write-back of) allowance for bad and doubtful debts	<b>(9)</b>	187
Reversal of write-down of inventories	<b>(34)</b>	(18)
Depreciation on property, plant and equipment	<b>19,732</b>	25,984
Loss on disposal of property, plant and equipment	<b>2,565</b>	2,478
Release of prepaid lease payments	<b>327</b>	317
Research and development costs	<b>1,398</b>	1,738

Research and development costs include staff costs of HK\$399,000 (2006: HK\$172,000), which are also included in the staff costs disclosed separately above.

## 5. DIVIDENDS PAID

	2007 HK\$'000	2006 HK\$'000
Dividends recognised as distribution during the year:		
Interim – HK1.0 cent per share (2006: HK1.0 cent per share)	8,766	8,766
Final – HK1.0 cent per share (2006: HK1.5 cents per share)	8,766	13,148
	<u>17,532</u>	<u>21,914</u>

Subsequent to 30 June 2007, the final dividend of HK1.0 cent per share (2006: HK1.0 cent per share) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 6. EARNINGS PER SHARE

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

	2007 HK\$'000	2006 HK\$'000
Earnings:		
Profit for the year and earnings for the purposes of basic earnings per share	86,025	92,346
Effect of dilutive potential ordinary shares:		
Convertible notes	–	9,765
Earnings for the purposes of diluted earnings per share	<u>86,025</u>	<u>102,111</u>
	<b>2007</b>	2006
	<b>'000</b>	<b>'000</b>

Number of shares:

Weighted average number of ordinary shares for the purposes of basic earnings per share	884,193	876,558
Effect of dilutive potential ordinary shares:		
Share options	1,815	–
Convertible notes	–	194,805
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>886,008</u>	<u>1,071,363</u>

The computation of diluted earnings per share for the year ended 30 June 2006 does not assume the exercise of the Company's outstanding share options granted on 23 December 2003, as the exercise price of those options is higher than the average market price for the share for that year.

## 7. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranges from 45 days to 180 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>53,870</b>	56,761
61 – 90 days	<b>428</b>	2,072
Over 90 days	<b>6,269</b>	809
Trade receivables	<b>60,567</b>	59,642
Other receivables	<b>1,962</b>	1,664
	<b>62,529</b>	61,306

## 8. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>41,069</b>	40,001
61 – 90 days	<b>90</b>	–
Trade payables	<b>41,159</b>	40,001
Other payables	<b>16,872</b>	16,591
	<b>58,031</b>	56,592

# Management Discussion and Analysis

## OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven fabrics targeting at mid to high-end markets both in the PRC and overseas. The Group vertically integrates its production process, which include research and development, raw fabric weaving, dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's products are used for manufacturing down wear, sports wear, household products such as sofa and curtain and men's and women's fashions.

During the year, more dyeing auxiliary facilities for producing functional fabrics were purchased in order to increase the varieties of down wear, sports wear and household products with different nature, which in turn, boost the market expansion and increase selling prices to certain extent. In addition, more water jet rapier looms were purchased at the weaving plant in Changle City in May 2007, which has completed the installation and test run in June 2007 and will commence the production in the next financial year; approximately 30% of fabrics for dyeing process will be then self supplied. The Group's own weaving factory ensures steadier supply and better quality control of raw fabrics for the dyeing process, whilst shortens the production cycle.

To be in line with the Group's efforts in expanding markets, the Group participated in the textile fairs held in Paris, France and Shanghai, the PRC, during the year so as to promote and sell its products to local and overseas customers.

### Turnover

For the financial year ended 30 June 2007, the Group recorded an increase in turnover of approximately HK\$645,575,000 (2006: HK\$615,767,000), approximately 4.8% more than that in 2006. The increase in turnover was attributable to the market demand of down wear, sports wear and household products increased with the types of functional fabrics that sold at higher selling prices.

### Gross Profit

The gross profit margin of the Group of approximately 28.6% in the current year was maintained at the same level as that in the previous year of approximately 29.2%. It is due to the increased and steady self-supplied raw fabrics productivity for dyeing process with better quality control and shorter production cycle.

### Profit for the Year

The Group's profit for the financial year ended 30 June 2007 was approximately HK\$86,025,000 (2006: HK\$92,346,000), approximately 6.8% less than that in 2006. Net profit margin for the year ended 30 June 2007 was approximately 13.3% (2006: 15.0%). The edge down of net profit margin compared with previous year was due to loss on change in the fair value of the convertible notes (the "CN") during the year.

### Expenses

Selling and distribution costs amounted to approximately HK\$18,326,000 (2006: HK\$18,221,000), representing approximately 2.8% (2006: 3.0%) of turnover for the year ended 30 June 2007. The slight decrease in percentage of turnover was mainly due to the drop in transportation charges as a consequence of a change in delivery means of products to customers.

Administrative expenses amounted to approximately HK\$18,946,000 (2006: HK\$14,190,000), representing approximately 2.9% (2006: 2.3%) of turnover for the year ended 30 June 2007. Administrative expenses increased by approximately 33.5% when compared with that of 2006. It was mainly due to the charge of the grant of share option during the year.

Other expenses amounted to approximately HK\$3,992,000 (2006: HK\$4,527,000), representing approximately 0.6% (2006: 0.7%) of turnover for the year ended 30 June 2007, which was maintained at the same level as previous year. Other expenses included loss on disposal of property, plant and equipment and research and development costs incurred during the year.

Loss on changes in fair value of the CN amounted to approximately HK\$15,663,000 (2006: HK\$9,765,000), representing approximately 2.4% (2006: 1.6%) of turnover for the year ended 30 June 2007. The upsurge was due to the increase in the fair value of the CN as a result of the increase in share price.

Finance costs amounted to approximately HK\$1,097,000 (2006: HK\$1,063,000), was the interest payments of bank borrowings and was maintained at the same level as previous year.

### **Dividend**

An interim dividend of HK1.0 cent per ordinary share was paid to shareholders during the year. The Board recommends the payment of a final dividend of HK1.0 cent per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 29 November 2007 if approved at the forthcoming annual general meeting. Dividend warrants will be dispatched to the shareholders of the Company on or before 20 December 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

### **FUTURE PLANS AND PROSPECTS**

As a result of the constant improvement of quality of life in the PRC, the demand for fashionable clothes and quality fabrics continuously increases. In order to diversify the customer base of the Group and tap the market potential, the Group preserves its strong distribution network in major textile markets in the PRC and overseas textile markets. The Group persists in its market expansion by maintaining good and close relationship with distribution agents and valuable customers and concreting its present sales and marketing team.

To maintain the competitiveness of the Group's products in the market, the Group targets to produce down wear, sports wear and household products as its main production in the future due to the increase in market demand of these three products and accordingly the portion of men's and women's fashions to total sales would be decreased. To cope with the change in product kind, the Group prolongs to invest approximately HK\$110,000,000 for purchase of a piece of land adjacent to the plant in Changle City, construction of a multi-storey plant on it, setting up a new weaving production line for knit fabrics and installation of new state-of-the-art dyeing auxiliary facilities for producing more varieties of functional fabrics in the future. After this expansion, the dyeing production capacity will be expected to increase by one-third of the existing capacity per annum.

On account of the continuous change in the trend of the textile and garment markets, the Group keeps putting effort in research and development of new products and improvement of existing products in order to meet the dynamic market needs.



## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2007, the Group had net current assets and total assets less current liabilities of approximately HK\$492,019,000 (2006: HK\$345,057,000) and HK\$641,387,000 (2006: HK\$543,242,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources. As at 30 June 2007, the Group had cash and bank deposits of approximately HK\$491,132,000 (2006: HK\$384,056,000). The current ratio of the Group was approximately 661.0% (2006: 484.3%).

Shareholders' fund of the Group as at 30 June 2007 was approximately HK\$641,387,000 (2006: HK\$460,252,000). As at 30 June 2007, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, denominated in RMB10,000,000, were equivalent to HK\$10,000,000 (2006: HK\$16,074,000), giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 1.6% (2006: 21.5%).

The financial health of the Group has been strong throughout the year as indicated by low gearing and high current ratio.

## **FINANCING**

As at 30 June 2007, the total banking facilities of the Group amounted to about HK\$25,000,000 (2006: HK\$30,680,000), of which, HK\$15,210,000 (2006: HK\$22,545,000) was utilized.

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

## **USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in September 2003, after deduction of related expenses, amounted to approximately HK\$77,100,000. These proceeds were fully applied up to 30 June 2007 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 28 August 2003:

- as to approximately HK\$56,000,000 for construction of additional production line for fabric dyeing and its auxiliary facilities;
- as to approximately HK\$5,000,000 for expansion of distribution network and promotion of the Group's products and trademark;
- as to approximately HK\$5,000,000 for product development (including the establishment of a new research and development centre and acquisition of research and development facilities);
- as to about HK\$2,000,000 for the establishment of an e-commerce platform for managing logistics and information exchange between the Group and its distribution agents and for business to business e-commerce; and
- as to approximately HK\$9,100,000 for general working capital of the Group.

## **CAPITAL STRUCTURE**

As at 30 June 2007, the share capital of the Company comprises ordinary shares only. There was no outstanding CN at balance sheet date, Credit Suisse (Hong Kong) Limited ("Credit Suisse"), an independent investor, had converted the CN during the year.

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

Though there was a currency appreciation of Renminbi throughout the year ended 30 June 2007, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings and the CN of the Group were denominated in Renminbi and US dollar, respectively. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

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

As at 30 June 2007, certain plant and machinery of the Group with aggregate carrying value of approximately HK\$34,189,000 (2006: HK\$37,036,000) were pledged to a bank to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK\$3,473,000 (2006: HK\$4,314,000).

As at 30 June 2006, certain buildings of the Group with aggregate carrying value of HK\$871,000 were pledged to a bank to secure banking facilities granted to the Group.

Pursuant to a deed of assignment dated 3 December 2004, Credit Suisse would deposit the subscription funds for the convertible notes to an account of DB Trustees (Hong Kong) Limited (the "Account"). The Company would charge the Account and all moneys (including interest) from time to time standing to the credit to the Account, by way of fixed charge, in favour of DB Trustees (Hong Kong) Limited (who acts as security trustee for Credit Suisse) as continuing security for the payment and discharge of all moneys owing by the Company to Credit Suisse. As at 30 June 2007, no subscription funds (2006: US\$5,000,000) was maintained in the Account.

## **CAPITAL EXPENDITURE**

During the year, the Group invested approximately HK\$7,539,000 (2006: HK\$12,694,000) in property, plant and equipment, of which 69.0% (2006: 7.0%) was used for purchase of plant and machinery, 31.0% (2006: 91.3%) for completion of new dormitories and warehouse.

As at 30 June 2007, the Group had capital commitments of approximately HK\$500,000 (2006: HK\$1,902,000) in property, plant and equipment or prepaid lease payments. The capital commitments in previous year were funded by internally generated resources.

## **STAFF POLICY**

The Group had 468 employees altogether in the PRC and Hong Kong as at 30 June 2007. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment 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, for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

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

## **CONTINGENT LIABILITIES**

At the balance sheet date, the Group and the Company did not have any significant contingent liabilities.

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

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

## **AUDIT COMMITTEE**

The audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the consolidated financial statements and annual results for the year ended 30 June 2007.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 30 June 2007.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")**

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. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 26 November 2007 to 29 November 2007 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 November 2007.

By order of the board

**Art Textile Technology International Company Limited**

**Chen Jinyan**

*Chairman*

Hong Kong, 28 September 2007

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan, Mr. Chen Dong and Ms. Kong Ping; and the independent non-executive directors of the Company are Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhong Ming.*