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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)

2008 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 2008 together with the comparative figures in 2007 as follows:

Consolidated Income Statement

For the year ended 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover		**674,195**	645,575
Cost of sales		**(490,708)**	(460,906)
Gross profit		**183,487**	184,669
Other income		**4,763**	5,370
Administrative expenses		**(27,235)**	(18,946)
Selling and distribution costs		**(21,015)**	(18,326)
Other expenses		**(5,229)**	(3,992)
Finance costs	3	**(729)**	(1,097)
Loss on changes in fair value of convertible notes		**–**	(15,663)
Profit before taxation	4	**134,042**	132,015
Income tax expense	5	**(42,826)**	(45,990)
Profit for the year		**91,216**	86,025
Dividends paid	6	**10,406**	17,532
Earnings per share	7		
Basic, in Hong Kong cents		**8.77**	9.73
Diluted, in Hong Kong cents		**8.74**	9.71

Consolidated Balance Sheet

At 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**454,858**	133,164
Prepaid lease payments – non-current portion		**116,344**	14,105
Deposits for acquisition of plant and equipment		**11,746**	2,099
		582,948	149,368
CURRENT ASSETS			
Inventories		**36,210**	25,729
Trade and other receivables	8	**74,015**	62,529
Prepaid lease payments – current portion		**2,494**	327
Pledged bank deposits		**4,484**	3,473
Bank balances and cash		**504,393**	487,659
		621,596	579,717
CURRENT LIABILITIES			
Trade and other payables	9	**322,541**	58,031
Tax liabilities		**15,539**	19,667
Secured bank borrowings		**34,577**	10,000
Obligations under finance leases – due within one year		**10,552**	–
		383,209	87,698
NET CURRENT ASSETS		**238,387**	492,019
		821,335	641,387
CAPITAL AND RESERVES			
Share capital		**10,406**	10,406
Dividend reserve		**–**	10,406
Share premium and other reserves		**785,895**	620,575
		796,301	641,387
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**22,279**	–
Deferred tax liabilities		**2,755**	–
		25,034	–
		821,335	641,387

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008

1. GENERAL

The Company is 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, a private company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

The Company is an investment holding company.

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

3. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**729**	1,097

4. PROFIT BEFORE TAXATION

	2008	2007
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Staff costs		
– directors' emoluments	**4,048**	4,390
– other staff's salaries and benefits	**12,590**	12,570
– other staff's retirement benefit scheme contributions	**1,732**	1,501
– other staff's share-based payment expense	**6,062**	1,429
	24,432	19,890
Allowance for (write-back of) bad and doubtful debts	**159**	(9)
Auditor's remuneration	**910**	820
Reversal of write-down of inventories	**–**	(34)
Depreciation of property, plant and equipment	**27,802**	19,732
Exchange loss, net	**1,514**	–
Loss on disposal of property, plant and equipment	**591**	2,565
Release of prepaid lease payments	**363**	327

5. INCOME TAX EXPENSE

	2008	2007
	HK$'000	HK$'000
The charge comprises:		
PRC Foreign Enterprise Income Tax ("FEIT"):		
Current year	**40,071**	45,990
Deferred tax	**2,755**	–
Total	**42,826**	45,990

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.

FEIT is provided on the estimated assessable income of the year calculated in accordance with the relevant regulations of the PRC.

Adoption of Law of the PRC on Enterprise Income Tax

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law ("Implementation Regulations"). The New Law and Implementation Regulations changed the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for FEIT is still applicable until the end of the five-year transitional period under the New Law.

For entities which are still entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

Deferred taxation of HK$2,755,000 has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries starting from 1 January 2008 attributable to the Group under the New Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

Tax concessions and holidays entitled by the Group

Fuzhou Huaguan Knitting and Sprining 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 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 exemption period of Fuzhou Huasheng expired on 31 December 2006 and its applicable preferential tax rate, which is 50% relief for the reduced tax rate for the following three years, was 12.5% for the period from 1 January 2007 to 31 December 2009.

The applicable tax rate for Fuzhou Huaguan was changed from 27% to 25% from 1 January 2008 onwards.

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

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**134,042**	132,015
Tax at the income tax rate of 25% (2007: 27%)	**33,511**	35,644
Tax effect of expenses not deductible for tax purpose	**5,358**	11,808
Tax effect of income not taxable for tax purpose	**(406)**	(1,462)
Tax effect of income subject to tax rates prior to the adoption of the New Law	**1,608**	–
Deferred tax on undistributed earnings of PRC's subsidiaries derived after 31 December 2007	**2,755**	–
Tax charge for the year	**42,826**	45,990

6. DIVIDENDS PAID

	2008 HK$'000	2007 HK$'000
Dividends recognised as distribution during the year:		
2008 interim dividend – Nil		
(2007: 2007 interim dividend of HK1.0 cent per share)	**–**	8,766
2007 final dividend – HK1.0 cent per share		
(2007: 2006 final dividend of HK1.0 cent per share)	**10,406**	8,766
	10,406	17,532

The directors do not recommend the payment of dividend for the year ended 30 June 2008 (2007: HK1.0 cent per share).

7. 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:

	2008 HK$'000	2007 HK$'000
Earnings:		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	**91,216**	86,025

	2008 '000	2007 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,040,602**	884,193
Effect of dilutive potential ordinary shares in respect of share options	**3,587**	1,815
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,044,189**	886,008

The computation of diluted earnings per share for both years does not assume the exercise of the Company's outstanding share options granted on 23 December 2003 and 21 August 2007, as the exercise prices of those options are higher than the average market prices for the Company's shares for both years.

8. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	HK$'000
Trade receivables	**56,644**	61,178
Less: Allowance for doubtful debts	**(509)**	(611)
	56,135	60,567
Other receivables	**17,880**	1,962
	74,015	62,529

In the current year, HK$3,900,000 (2007: 4,847,000) trade receivables of the Group are denominated in USD.

The Group allows average credit period ranging from 45 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2008	2007
	HK$'000	HK$'000
Trade debtors		
0 – 60 days	**47,197**	53,870
61 – 90 days	**571**	428
Over 90 days	**8,367**	6,269
	56,135	60,567

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 85% of the trade receivables that are neither past due nor impaired have good credit rating.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$8,367,000 (2007: HK$6,269,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is between 91 to 120 days (2007: between 91 to 120 days).

The entire balance of the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$509,000 (2007: HK$611,000) which had been in severe financial difficulties. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts are as follows:

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**611**	602
Amounts written off as uncollectible	**(329)**	–
Impairment loss recognised on receivables	**159**	–
Impairment loss reversed	**–**	(9)
Exchange realignment	**68**	18
Balance at end of the year	**509**	611

The Group would provide fully for all receivables over 180 days because historical experience is that such receivables that are past due beyond 180 days are generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss is considered necessary.

9. TRADE AND OTHER PAYABLES

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

	2008	2007
	HK$'000	HK$'000
0 – 60 days	**44,226**	41,069
61 – 90 days	**–**	90
Trade payables	**44,226**	41,159
Other payables	**278,315**	16,872
	322,541	58,031

Included in other payables at 30 June 2008 are construction in progress payable to contractors of HK$132,690,000, consideration payable for the acquisition of assets through acquisition of subsidiaries of HK$35,556,000 and amounts due to the former shareholders of the subsidiaries acquired during the year of HK$41,565,000.

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.

The Group ensures steadier supply and better quality control of raw fabrics for the dyeing process by weaving complicated fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, new dyeing auxiliary facilities purchased in recent years enlarges the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

To be in line with the Group's efforts in expanding sales 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.

Acquisition of Assets through Acquisition of Subsidiaries

On 17 March 2008, the Group entered into two sale and purchase agreements with independent third parties to acquire the entire 100% equity interest in Wide Launch Investment Limited and its subsidiaries, Well Master Enterprise Limited and Zhengzhou Hongye Textile Company Limited, and the entire 100% equity interest in Zhengzhou Huatai Textile Company Limited for cash considerations of RMB110,000,000 (equivalent to approximately HK$122,222,000) and RMB50,000,000 (equivalent to approximately HK$55,556,000) respectively. Details of the above are set out in the circular of the Company dated 30 April 2008.

Turnover

For the financial year ended 30 June 2008, the Group recorded an increase in turnover of approximately HK$674,195,000 (2007: HK$645,575,000), approximately 4.4% more than that in 2007. The increase in turnover was attributable to the currency appreciation of Chinese Yuan during the year.

Gross Profit

The gross profit margin of the Group of approximately 27.2% in the current year decreased slightly as that in the previous year of approximately 28.6%. It was due to slight increase in costs of raw material used for fabric production.

Profit for the Year

The Group's profit for the financial year ended 30 June 2008 was approximately HK$91,216,000 (2007: HK$86,025,000), approximately 6.0% more than that in 2007. Net profit margin for the year ended 30 June 2008 was approximately 13.5% (2007: 13.3%) which was maintained at the same level as that in the previous year.

Expenses

Administrative expenses amounted to approximately HK$27,235,000 (2007: HK$18,946,000), representing approximately 4.0% (2007: 2.9%) of turnover for the year ended 30 June 2008. Administrative expenses increased by approximately 43.8% when compared with that of 2007. It was due to the charge of the grant of share options and professional fees spent for the acquisition carried out during the current year.

Selling and distribution costs amounted to approximately HK$21,015,000 (2007: HK$18,326,000), representing approximately 3.1% (2007: 2.8%) of turnover for the year ended 30 June 2008. Selling and distribution costs increased by 14.7% when compared with that of 2007. It was due to the increase in delivery charges as a result of the surge of petrol prices during the current year.

Other expenses amounted to approximately HK$5,229,000 (2007: HK$3,992,000), representing approximately 0.8% (2007: 0.6%) of turnover for the year ended 30 June 2008. The increase was due to loss on disposal of outdated property, plant and equipment incurred during the year.

Finance costs amounted to approximately HK$729,000 (2007: HK$1,097,000), was the interest payments of bank borrowings. The decrease was due to less bank loans drawn down during the year.

No loss on changes in fair value of the convertible notes ("CN") in the current year as all the CN were converted by the holder during the year ended 30 June 2007; which had the loss of approximately HK$15,663,000, representing approximately 2.4% of turnover in previous year.

Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2008.

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 strengthening its present sales and marketing team.

Demand for pure cotton knit fabrics from current customers keeps increasing with the Group's continuous growth in these few years. The Group has satisfied customers' demand only by purchasing yarn for weaving into knit fabrics from external suppliers and dyed them into finished products. However, the acquisitions in Zhengzhou city of Henan province, the PRC would align with the Group's future development plan because the main products of two PRC registered companies would be yarn for weaving into pure cotton knit fabrics, which in turn, would further enable the vertical integration of the Group. Moreover, an international standard dyeing production line has been installed at the plant in Changle City for further exploring the market of pure cotton knit fabrics. Consequently, the Group would be able to integrate its production process vertically, from yarn spinning, raw fabric weaving to dyeing. The construction of the plant would be completed in October 2008 and hence the first production line would be installed and trial run afterwards. Its production of yarn would be commenced at the end of November 2008. Three other production lines would be installed and trial run during the period from January to October 2009 and the yarn production would be commenced accordingly once their installation and trial run are completely satisfactorily. The full production capacity of these four production lines is expected to be approximately 15,000 tons to 17,000 tons per annum.

To cope with producing various kinds of fabrics, the Group plans to invest approximately HK$55,000,000 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 production line for weaving knit fabrics. In addition, new state-of-the-art dyeing auxiliary facilities for dyeing pure cotton fabrics amounted to approximately HK$38,000,000, have been purchased and installed during the year. Its commencement of production is expected in November 2008. After this expansion, the dyeing production capacity for pure cotton fabrics will be approximately 2,500 tons to 3,000 tons 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 2008, the Group had net current assets and total assets less current liabilities of approximately HK$238,387,000 (2007: HK$492,019,000) and HK$821,335,000 (2007: HK$641,387,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources. As at 30 June 2008, the Group had cash and bank deposits of approximately HK$508,877,000 (2007: HK$491,132,000). The current ratio of the Group was approximately 162.2% (2007: 661.0%).

Shareholders' fund of the Group as at 30 June 2008 was approximately HK$796,301,000 (2007: HK$641,387,000). As at 30 June 2008, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, denominated in RMB31,119,000, were equivalent to HK$34,577,000 (2007: HK$10,000,000); and obligations under finance leases for plant and machinery, denominated in EUR3,097,000, were equivalent to HK$32,831,000 (2007: Nil), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 8.5% (2007: 1.6%).

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 2008, the total banking facilities of the Group amounted to about HK$100,000,000 (2007: HK$25,000,000), of which, HK$41,303,000 (2007: HK$15,210,000) was utilized.

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

CAPITAL STRUCTURE

As at 30 June 2008, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

Though there was a currency appreciation of Renminbi throughout the year ended 30 June 2008, 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.

The Board is of the opinion that the Group is not subject to any significant interest rate risk even though part of the bank borrowings of the Group were denominated in Renminbi and at floating rate basis.

CHARGE ON GROUP'S ASSETS

As at 30 June 2008, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$79,721,000 (2007: Nil) and approximately HK$32,121,000 (2007: HK$34,189,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$4,484,000 (2007: HK$3,473,000).

As at 30 June 2008, the carrying value of the Group's plant and machinery held under finance leases was HK$49,298,000 (2007: Nil).

As at 30 June 2008, certain leasehold land with carrying value of HK$103,166,000 (2007: Nil) was pledged to a contractor to secure the payments of certain construction in progress payable.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$438,809,000 (2007: HK$7,539,000) in property, plant and equipment and leasehold land, of which 21.9% (2007: 69.0%) was used for purchase of plant and machinery, 52.0% (2007: 31.0%) for construction of new plant, office building, dormitories and warehouse in Zhengzhou, 25.1% (2007: Nil) for purchase of a piece of leasehold land in Zhengzhou and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2008, the Group had capital commitments of approximately HK$163,361,000 (2007: HK$500,000) in property, plant and equipment. The capital commitments in previous year were funded by internally generated resources.

STAFF POLICY

The Group had 526 employees altogether in the PRC and Hong Kong as at 30 June 2008. 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 2008.

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 2008.

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 2008.

By order of the Board
Art Textile Technology International Company Limited
Chen Jinyan
Chairman

Hong Kong, 30 September 2008

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