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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 Interim Results Announcement

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 (the "Group") for the six months ended 31 December 2008 (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 Income Statement

For the six months ended 31 December 2008

		Six months ended	
		31.12.2008	31.12.2007
		(unaudited)	(unaudited)
	NOTES	**HK$'000**	HK$'000
Turnover		**303,351**	300,870
Cost of sales		**(252,426)**	(214,418)
Gross profit		**50,925**	86,452
Other income		**1,633**	7,210
Administrative expenses		**(18,806)**	(15,052)
Selling and distribution costs		**(9,253)**	(8,330)
Other expenses		**(1,494)**	(1,099)
Finance costs	*4*	**(5,879)**	(308)
Profit before taxation		**17,126**	68,873
Income tax expense	*5*	**(9,448)**	(19,081)
Profit for the period	*6*	**7,678**	49,792
Dividend	*7*	**–**	10,406
EARNINGS PER SHARE	*8*		
– Basic, in Hong Kong cents		**0.74**	4.78
– Diluted, in Hong Kong cents		**N/A**	4.76

Condensed Consolidated Balance Sheet

At 31 December 2008

	31.12.2008 (unaudited) HK$'000	30.6.2008 (audited) HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**499,276**	454,858
Prepaid lease payments – non-current portion	**119,690**	116,344
Deposits for acquisition of plant and equipment	**30,008**	11,746
	648,974	582,948
CURRENT ASSETS		
Inventories	**27,113**	36,210
Trade and other receivables	**72,250**	74,015
Prepaid lease payments – current portion	**2,589**	2,494
Pledged bank deposits	**18,377**	4,484
Bank balances and cash	**356,390**	504,393
	476,719	621,596
CURRENT LIABILITIES		
Trade and other payables	**136,382**	322,541
Tax liabilities	**11,246**	15,539
Bank borrowings – due within one year	**111,212**	34,577
Obligations under finance leases – due within one year	**11,073**	10,552
	269,913	383,209
NET CURRENT ASSETS	**206,806**	238,387
	855,780	821,335
CAPITAL AND RESERVES		
Share capital	**10,406**	10,406
Share premium and other reserves	**812,590**	785,895
	822,996	796,301
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	**11,667**	–
Obligations under finance leases – due after one year	**17,077**	22,279
Deferred tax liabilities	**4,040**	2,755
	32,784	25,034
	855,780	821,335

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2008

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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2008.

In the current interim period, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material effect on how the results and the financial position of the Group are prepared and presented.

3. SEGMENT INFORMATION

No analysis on business segment is provided as 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.

4. FINANCE COSTS

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**3,936**	308
– Finance leases	**1,943**	–
	5,879	308

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax – PRC Foreign Enterprise Income Tax ("FEIT")	**8,226**	19,081
Deferred tax	**1,222**	–
	9,448	19,081

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 six months ended 31 December 2007 and 2008.

5. INCOME TAX EXPENSE *(Continued)*

FEIT is provided on the estimated assessable income of the period 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$1,222,000 has been provided for in the condensed consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries during the period 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"), Fuzhou Huasheng Textile Co., Ltd. ("Fuzhou Huasheng"), Zhengzhou Hongye Textile Company Limited ("Zhengzhou Hongye") and Zhengzhou Huatai Textile Company Limited ("Zhengzhou Huatai") are subsidiaries of the Company established in the PRC. Fuzhou Huasheng and Zhengzhou Hongye are exempted from FEIT for two years starting from its first profit-making year of operations and 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 tax rate, which is 50% relief on the tax rate for the following three years, was 12.5% for the period from 1 January 2007 to 31 December 2009. Zhengzhou Hongye did not generate any assessable profit prior to 1 January 2008 and its tax holiday is deemed to commence from 1 January 2008 onwards according to the New Law.

5. INCOME TAX EXPENSE *(Continued)*

Tax concessions and holidays entitled by the Group *(Continued)*

The applicable tax rate for Fuzhou Huaguan and Zhengzhou Huatai were changed from 27% to 25% from 1 January 2008 onwards. No provision for enterprise income tax has been made for Zhengzhou Huatai as it did not generate any assessable profits during the period.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**13,285**	10,993
Release of prepaid lease payments	**1,269**	174
Interest income	**(1,625)**	(2,437)

7. DIVIDEND

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final – Nil (2007: HK1.0 cent per share)	**–**	10,406

No dividend were paid, declared or proposed during the period. The directors do not recommend the payment of an interim dividend (2007: Nil).

8. 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:

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period and earnings for the purposes of basic earnings per share	**7,678**	49,792
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**1,040,603**	1,040,603
Effect of dilutive potential ordinary shares in respect of share options	**–**	5,643
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,040,603**	1,046,246

No diluted earnings per share has been presented for the period ended 31 December 2008 because the exercise price of the share options was higher than the average market price for shares during the period.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven and cotton fabrics targeting at mid to high-end markets both in the PRC and overseas. The Group vertically integrates its production process to 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 woven fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, the Group's existing dyeing auxiliary facilities enlarge the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

In order to capture the demand for pure cotton knit fabrics from current customers, the Group acquired yarn spinning assets in previous financial year. This acquisition aligns with the Group's future development plan. The assets acquired comprise of plant, machinery and equipment and related auxiliary facilities in Zhengzhou city of Henan province, the People's Republic of China (the "PRC"). Its construction, delivery, and installation were completed before the end of the Period. The trial run has been started in the first quarter of 2009 and the commercial production is expected to be commenced in the second quarter of 2009. The final product, yarn for weaving into pure cotton knit fabrics, would be both for sale to external customers and for internal use. Corresponding to the international standard dyeing production line installed at the plant in Changle City, the Group would be able to integrate its production process vertically, from yarn spinning, raw fabric weaving to dyeing.

To be in line with the Group's efforts in expanding sales markets, the Group participated in the textile fair held in Paris, France during the Period so as to promote and sell its products to overseas customers.

Turnover

For the Period, the Group recorded a slight increase in turnover of approximately HK$303,351,000 (2007: HK$300,870,000), approximately 0.8% more than that in 2007. The increase in turnover was attributable to the currency appreciation of Chinese Yuan when compared with that of 2007.

Gross Profit

The gross profit margin of the Group of approximately 16.8% in the Period decreased enormously as that in the 2007 of approximately 28.7%. It was due to an increase in costs of raw materials and energy costs, and the slowdown in both domestic and foreign demand as well as more intensive market competition.

Profit for the Period

The Group's profit for the Period was approximately HK$7,678,000 (2007: HK$49,792,000), which is approximately 84.6% less than that in 2007. Net profit margin for the Period was approximately 2.5% (2007: 16.5%) which decreased significantly due to the increase in cost of sales of the Group's existing products and administration expenses of the new plant in Zhengzhou while no production took place during the Period.

Expenses

Administrative expenses amounted to approximately HK$18,806,000 (2007: HK$15,052,000), representing approximately 6.2% (2007: 5.0%) of turnover for the Period. Administrative expenses increased by approximately 24.9% when compared with that of 2007. It was due to the charge of the grant of share options and additional administrative expenses incurred for the plant in Zhengzhou during the Period.

Selling and distribution costs amounted to approximately HK$9,253,000 (2007: HK$8,330,000), representing approximately 3.1% (2007: 2.8%) of turnover for the Period. Selling and distribution costs increased by approximately 11.1% as compared with that of 2007 was due to an increase in advertisements and promotional charges incurred during the Period.

Other expenses amounted to approximately HK$1,494,000 (2007: HK$1,099,000), representing approximately 0.5% (2007: 0.4%) of turnover for the Period. The increase was due to an increase in research and development expenditure incurred during the Period.

Finance costs amounted to approximately HK$5,879,000 (2007: HK$308,000), representing approximately 1.9% (2007: 0.1%) of turnover for the Period. The increase was due to the draw down of bank loans during the Period and payments of finance leases for the purchase of machineries and equipment at the plant in Zhengzhou.

Dividend

The directors do not recommend the payment of an interim dividend for the period ended 31 December 2008. (2007: nil)

FUTURE PLANS AND PROSPECTS

In the second half year of 2008, the financial tsunami adversely affected the global economy. As a results, both domestic and overseas textile markets had been affected. Although the PRC government has adopted some macro-economic measures, such as increasing the tax rebate rate for certain textile products, it would take some time for these measures to improve the macro-economic environment as a whole. Since the harmful impacts are expected to be lasted for some time, the Group continues to preserve its strong distribution network through maintaining good and close relationship with distribution agents and valuable customers and strengthening its present sales and marketing team before full recovery of the global economy.

The construction of the plant for spinning yarn in Zhengzhou was completed in October 2008 and the first production line was installed consequently. Trial run was carried out at the beginning of 2009. The yarn production is expected to be commenced in the second quarter of 2009. The Group will install three other production lines and conduct a trial run in 2009 and early 2010 and the production will commence accordingly once the installation and trial run are completed satisfactorily. The full production capacity of these four production lines is estimated to be approximately 15,000 tons to 17,000 tons per annum. Good quality of cotton would be used for spinning yarn which is targeted at the high end market, both domestic and overseas. Yarn is the raw material of pure cotton knit fabrics; its weaving process would be subcontracted to nominated suppliers and dyeing process would be done at the Changle plant; which will enable the Group to develop vertical integration.

In addition, the Group purchased a piece of land adjacent to the Changle plant during the Period for industrial purpose. The detailed planning would be processed after smooth production of all four production lines carried out in the Zhengzhou plant in next year.

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 31 December 2008, the Group had net current assets and total assets less current liabilities of approximately HK$206,806,000 (30 June 2008: HK$238,387,000) and approximately HK$855,780,000 (30 June 2008: HK$821,335,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 31 December 2008, the Group had cash and bank deposits of approximately HK$374,767,000 (30 June 2008: HK$508,877,000). The current ratio of the Group was approximately 176.6% (30 June 2008: 162.2%).

Shareholders' fund of the Group as at 31 December 2008 was approximately HK$822,996,000 (30 June 2008: HK$796,301,000). As at 31 December 2008, the total bank borrowings of the Group, repayable within 2 years from the balance sheet date, denominated in RMB92,000,000 and HK$18,334,000 were equivalent to HK$122,879,000 (30 June 2008: HK$34,577,000); and obligations under finance leases for machineries and equipment of approximately HK$28,150,000 (30 June 2008: HK$32,831,000), altogether giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 18.4% (30 June 2008: 8.5%).

The financial health of the Group has been strong throughout the Period.

FINANCING

As at 31 December 2008, the total banking facilities of the Group amounted to about HK$143,182,000 (30 June 2008: HK$100,000,000), of which, approximately HK$129,668,000 (30 June 2008: HK$41,303,000) 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 31 December 2008, 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 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 31 December 2008, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$87,642,000 (30 June 2008: HK$79,721,000) and approximately HK$65,603,000 (30 June 2008: HK$32,121,000), respectively, were pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$18,377,000 (30 June 2008: HK$4,484,000).

As at 31 December 2008, the carrying value of the Group's plant and machinery held under finance leases was approximately HK$50,418,000 (30 June 2008: HK$49,298,000).

As at 31 December 2008, certain leasehold land with carrying value of approximately HK$102,660,000 (30 June 2008: HK$103,166,000) was pledged to a contractor to secure the payments of certain construction in progress payable.

STAFF POLICY

The Group had 926 employees altogether in the PRC and Hong Kong as at 31 December 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 Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company 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 upon specific enquiry that they have complied with the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

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

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

On behalf of the Board
Chen Jinyan
Chairman

Hong Kong
20 March 2009

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.