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)

2011 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 2011 together with the comparative figures in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

		2011	2010
	NOTES	***HK$'000***	*HK$'000*
Turnover		**902,658**	801,646
Cost of sales		**(777,058)**	(699,181)
Gross profit		**125,600**	102,465
Other income	*5*	**7,925**	6,396
Administrative expenses		**(42,774)**	(34,589)
Selling and distribution costs		**(22,475)**	(22,610)
Other expenses		**(2,993)**	(2,480)
Finance costs	*6*	**(53,017)**	(24,748)
Profit before tax		**12,266**	24,434
Income tax expense	*7*	**(4,928)**	(18,883)
Profit for the year	*8*	**7,338**	5,551

	NOTES	2011 HK$'000	2010 HK$'000
Other comprehensive expenses			
Exchange differences arising on translation		**(580)**	–
Income tax relating to component of the comprehensive expenses		**–**	–
Other comprehensive expenses for the year (net of tax)		**(580)**	–
Total comprehensive income for the year		**6,758**	5,551
EARNINGS PER SHARE	*10*		
Basic *(HK cents per share)*		**0.71**	0.53
Diluted *(HK cents per share)*		**0.71**	0.53

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**592,464**	602,934
Prepaid lease payments		**121,707**	117,473
Deposits for acquisition of plant and equipment		**8,743**	8,309
		722,914	728,716
CURRENT ASSETS			
Inventories		**204,825**	104,642
Trade and other receivables	*11*	**373,851**	232,728
Pledged bank deposits		**337,936**	52,317
Bank balances and cash		**847,166**	427,116
		1,763,778	816,803
CURRENT LIABILITIES			
Trade and other payables	*12*	**740,158**	232,886
Tax liabilities		**4,214**	3,864
Secured bank borrowings		**796,506**	390,341
Obligations under finance leases		**20,688**	29,478
Unsecured bank borrowings		**–**	3,409
Deferred income		**693**	653
		1,562,259	660,631
NET CURRENT ASSETS		**201,519**	156,172
TOTAL ASSETS LESS CURRENT LIABILITIES		**924,433**	884,888
CAPITAL AND RESERVES			
Share capital		**10,406**	10,406
Share premium and reserves		**876,488**	819,340
Equity attributable to owners of the Company		**886,894**	829,746
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**25,658**	43,713
Deferred income		**3,464**	3,921
Deferred tax liabilities		**8,417**	7,508
		37,539	55,142
		924,433	884,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2011

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. Its ultimate controlling party is Mr. Chen Dong. 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. Its subsidiaries are principally engaged in the manufacture and sales of yarn and garment fabrics.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance of the Laws of Hong Kong.

The consolidated financial statements have been prepared on the historical cost basis. History cost is generally based on the fair value of the consideration given in exchange for goods.

4. SEGMENT INFORMATION

Information reported to the Board of Directors 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. By reviewing from a product perspective, management assesses the performance from sales of yarn and garment fabrics.

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

	Yarn	Garment fabrics	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 30 June 2011			
Total sales	**488,437**	**448,023**	**936,460**
Inter-segment sales	**(29,247)**	**(4,555)**	**(33,802)**
Turnover (from external customers)	**459,190**	**443,468**	**902,658**
Segment results	**6,518**	**9,817**	**16,335**
Income tax expense			**(4,928)**
Central administration costs			**(4,069)**
Profit for the year			**7,338**
Depreciation and amortisation	**39,433**	**28,697**	**68,130**

	Yarn	Garment fabrics	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 30 June 2010			
Total sales	172,483	653,544	826,027
Inter-segment sales	(16,634)	(7,747)	(24,381)
Turnover (from external customers)	155,849	645,797	801,646
Segment results	(34,602)	62,948	28,346
Loss on disposal of subsidiaries			(23)
Income tax expense			(18,883)
Central administration costs			(3,889)
Profit for the year			5,551
Depreciation and amortisation	28,896	27,082	55,978

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.

5. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**2,594**	2,040
Sales of scrap materials	**68**	1,018
Government grants received for research and development	**4,568**	2,614
Others	**695**	724
	7,925	6,396

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on		
– Bank borrowings wholly repayable within five years	**48,022**	20,136
– Finance leases	**4,995**	4,612
	53,017	24,748

7. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Income tax recognised in profit or loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**3,740**	16,000
– Underprovision in the prior years	**731**	483
	4,471	16,483
Deferred tax	**457**	2,400
Total	**4,928**	18,883

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year. 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.

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% from 1 January 2008 onwards.

Deferred tax of HK$457,000 (2010: HK$2,400,000) 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 EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

8. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
– directors' emoluments	**4,665**	3,945
– other staff's salaries and other benefits	**39,546**	21,687
– other staff's retirement benefit scheme contributions	**4,012**	2,647
	48,223	28,279
Allowance for bad and doubtful debts	**324**	229
Auditor's remuneration	**650**	630
Depreciation of property, plant and equipment	**65,399**	53,425
Exchange loss, net	**230**	113
Loss on disposal of property, plant and equipment	**127**	102
Loss on disposal of subsidiaries	**–**	23
Release of prepaid lease payments	**2,800**	2,627
Research and development costs	**2,084**	2,062

9. DIVIDENDS PAID

No dividend was paid or proposed for the year ended 30 June 2011 nor has any dividend been proposed since the end of the reporting period (2010: None).

10. EARNINGS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Earnings:		
Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	**7,338**	5,551

	2011	2010
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,040,602**	1,040,602
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,040,602**	1,040,602

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices for the Company's shares for both 2010 and 2011.

11. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**111,151**	101,647
Less: Allowance for doubtful debts	**(567)**	(229)
	110,584	101,418
Prepayment to suppliers	**225,414**	91,349
Bill receivables	**6,251**	5,023
Others	**28,774**	32,311
Prepaid lease payments-current portion	**2,828**	2,627
	373,851	232,728

In the current year, HK$3,956,000 (2010: HK$3,604,000) trade receivables of the Group are denominated in United States Dollar.

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:

	2011	2010
	HK$'000	*HK$'000*
0 – 60 days	**109,671**	77,685
61 – 90 days	**259**	2,974
Over 90 days	**654**	20,759
Trade receivables	**110,584**	101,418

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for that customer. Limits attributed to customers are reviewed regularly. 99% (2010: 79%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$654,000 (2010: HK$20,759,000) which are past due at the end of the reporting period 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 (2010: 91 to 120 days).

Ageing of past due but not impaired:

Overdue by:	**2011**	2010
	HK$'000	*HK$'000*
1 – 60 days	**320**	448
61 – 90 days	**–**	–
Over 90 days	**334**	20,311
Total	**654**	20,759

The Group has provided an impairment loss of HK$324,000 for the year ended 30 June 2011 (2010: HK$229,000). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**229**	–
Impairment loss recognised on receivables	**324**	229
Exchange realignment	**14**	–
Balance at end of the year	**567**	229

The Group would provide fully for all receivables over 180 days because historical experience showed that such receivables that were past due beyond 180 days were generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss was considered necessary. No average age of receivables are over 180 days at 30 June 2010 and 2011.

12. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**35,806**	22,206
Bill payables	**631,987**	158,605
Other payables	**72,365**	52,075
	740,158	232,886

The average credit period on trade payables is 45 days (2010: 45 days). The average credit period on bill payables is ranged from 90 days to 180 days (2010: 90 days to 180 days).

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

	2011	2010
	HK$'000	*HK$'000*
0 – 60 days	**405,653**	137,936
61 – 90 days	**73,924**	24,807
Over 90 days	**188,216**	18,068
Trade and bill payables	**667,793**	180,811

As at 30 June 2011, no construction in progress payable to contractors is included in the Group's other payables (2010: HK$3,999,000).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of yarn and garment 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, yarn spinning, grey fabric trial weaving, garment fabric dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's yarn is used for weaving into pure cotton knit fabrics and considerably sold to external customers and the remaining for internal use and the Group's fabrics are used for manufacturing down wear, sports wear, household products such as sofa and curtain and men's and women's fashions.

For the purpose of maintaining steadier supply and better quality control of grey fabrics for the dyeing process, the Group designates some suppliers to weave these fabrics based on the samples researched and developed by it. In addition, the existing advance yarn spinning and fabric dyeing machinery and equipment enable the Group to seize the demand for pure cotton knit fabrics from current and new customers and enlarge the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

In view of implementing the Group's plan in expanding sales markets, the Group participated in the textile fair held in Shanghai, the PRC during the current year so as to promote and sell its products to more local and overseas customers.

Turnover

For the financial year ended 30 June 2011, the Group recorded a turnover of approximately HK$902,658,000 (2010: HK$801,646,000), approximately 12.6% more than that in 2010. The increase in turnover was attributable to the full production capacity achieved at the plant in Zhengzhou city during the year.

Gross Profit

The gross profit margin of the Group of approximately 13.9% in the current year slightly increased when compared with that in 2010 of approximately 12.8%. It was mainly due to the augment in commercial sales of the yarn as a result of full production capacity achieved during the year.

Profit for the Year

For the financial year ended 30 June 2011, the Group's profit was approximately HK$7,338,000 (2010: HK$5,551,000), approximately 32.2% more than that in 2010. Net profit margin for the year ended 30 June 2011 of approximately 0.8% (2010: 0.7%) slightly increased when compared with that in 2010 as a result of the complete function of the plant in Zhengzhou city during the year.

Other income

The Group's other income for the financial year ended 30 June 2011 was approximately HK$7,925,000 (2010: HK$6,396,000), approximately 23.9% more than that in 2010. Such increase in the current year was attributable from the provision of a grant by the PRC regional government.

Expenses

Administrative expenses amounted to approximately HK$42,774,000 (2010: HK$34,589,000), representing approximately 4.7% (2010: 4.3%) of turnover for the year ended 30 June 2011. Administrative expenses increased by approximately 23.7% when compared with that of 2010. It was due to increased administrative expenses incurred by the plant in Zhengzhou city as a result of its operation of all production lines throughout the current year.

Selling and distribution costs amounted to approximately HK$22,475,000 (2010: HK$22,610,000), representing approximately 2.5% (2010: 2.8%) of turnover for the year ended 30 June 2011 and were maintained at a similar level as that of 2010.

Other expenses amounted to approximately HK$2,993,000 (2010: HK$2,480,000), representing approximately 0.3% (2010: 0.3%) of turnover for the year ended 30 June 2011. The increase was due to more allowance for doubtful debts raised during the year.

Finance costs amounted to approximately HK$53,017,000 (2010: HK$24,748,000), representing approximately 5.9% (2010: 3.1%) of turnover for the year ended 30 June 2011. The substantial increase was due to more bank loans and bills undertaken by the Group for the operation of both plants in Changle city and Zhengzhou city during the year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: Nil).

FUTURE PLANS AND PROSPECTS

The Group believes that the operating environment of Chinese textile exports will continue to improve and therefore continues to propel its strong distribution network through maintaining good and close relationship with distribution agents and valuable customers and at the same time strengthening its current sales and marketing teams. The Group also sustains efforts in research and development of new products and improvement of existing products in order to meet the needs of dynamic textile and garment markets.

All four production lines of the plant for spinning yarn in Zhengzhou city performed full commercial production during the year ended 30 June 2011. The full production capacity of these production lines is approximately 16,000 tons per annum. Good quality of cotton is used for spinning premium yarn which is targeted at the mid to high-end markets. Majority of yarn is sold to external customers while the remaining is for internal use. Ultimately, the yarn for weaving into pure cotton knit fabrics spun at the Zhengzhou plant are to complete its dyeing process in the Changle plant. The above processes will enable the Group to further develop the vertical integration of its production.

The future development of the textile industry in the PRC is still expected to face significant challenges and many uncertainties in the business environment, such as rising raw material costs, the intensifying international trade protectionism and continuous appreciation of RMB. Looking ahead, the Group will continue to capture opportunities for expansion and diversify its business for long term development in order to maximize the values of the shareholders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had net current assets and total assets less current liabilities of approximately HK$201,519,000 (2010: HK$156,172,000) and HK$924,433,000 (2010: HK$884,888,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 30 June 2011, the Group had cash and bank deposits of approximately HK$1,185,102,000 (2010: HK$479,433,000). The current ratio of the Group was approximately 112.9% (2010: 123.6%).

Shareholders' fund of the Group as at 30 June 2011 was approximately HK$886,894,000 (2010: HK$829,746,000). As at 30 June 2011, the total bank borrowings was the Group, repayable within 12 months from the end of the reporting period, denominated in RMB661,100,000 were equivalent to HK$796,506,000 (2010: HK$393,750,000); and obligations under finance leases for machinery and equipment was approximately HK$46,346,000 (2010: HK$73,191,000), altogether giving a gross debt gearing ratio (i.e. total borrowings/shareholders' fund) of approximately 95.0% (2010: 56.3%).

In view of the future shrinkage of the bank funding as a result of more stringent PRC central government economic policy, the Group maintains significant amount of working capital on hand in order to preserve its moderate financial position throughout the year and in future. The Group anticipates that adequate resources would be obtained from its growing business operations in meeting its short term and long term obligations.

FINANCING

As at 30 June 2011, the total banking facilities of the Group amounted to about HK$1,418,051,000 (2010: HK$611,364,000), of which, approximately HK$1,161,642,000 (2010: HK$528,200,000) 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 2011, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, 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 monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2011, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$335,583,000 (2010: HK$329,372,000) and approximately HK$127,524,000 (2010: HK$46,412,000), respectively, were all pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$337,936,000 (2010: HK$52,317,000).

As at 30 June 2011, the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$125,048,000 (2010: HK$170,313,000).

As at 30 June 2010, certain inventories with carrying values of approximately HK$6,818,000 were pledged as securities for bank borrowings.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$23,930,000 (2010: HK$126,340,000) in property, plant and equipment, of which 29.7% (2010: 93.3%) was used for purchase of plant and machinery, 63.3% (2010: 4.6%) for construction of auxiliary facilities, and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2011, the Group had capital commitments of approximately HK$3,614,000 (2010: Nil) in property, plant and equipment. The capital commitments were funded by internally generated resources, finance leases and bank loans.

STAFF POLICY

The Group had 1,445 employees altogether in the PRC and Hong Kong as at 30 June 2011. 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, 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 of the Laws of Hong Kong, 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 end of the reporting period, 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 of the Company comprises three independent non-executive directors of the Company who has reviewed with the management and the external auditor 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 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 30 June 2011.

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

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. 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 2011.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and at the website of the Company http://arttextile.etnet.com.hk. An annual report for the year ended 30 June 2011 will be dispatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 23 September 2011

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