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 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 (together, the "Group") for the six months ended 31 December 2011 (the "Period"), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

		Six months ended	
		31.12.2011	31.12.2010
		(unaudited)	(unaudited)
	NOTES	***HK$'000***	*HK$'000*
Turnover		**914,195**	371,877
Cost of sales		**(770,324)**	(313,455)
Gross profit		**143,871**	58,422
Other income		**8,084**	6,204
Administrative expenses		**(21,662)**	(19,445)
Selling and distribution costs		**(14,933)**	(10,710)
Other expenses		**(1,258)**	(1,346)
Allowance of inventory		**(51,802)**	–
Finance costs	*4*	**(38,423)**	(22,831)
Profit before tax		**23,877**	10,294
Income tax expense	*5*	**(30,468)**	(890)
(Loss)/profit for the period	*6*	**(6,591)**	9,404
Other comprehensive income			
Exchange differences arising on translation		**20,629**	29,523
Other comprehensive income for the period (net of tax)		**20,629**	29,523
Total comprehensive income for the period		**14,038**	38,927

		Six months ended	
		31.12.2011	31.12.2010
		(unaudited)	(unaudited)
	NOTES	***HK$'000***	*HK$'000*
(LOSS)/EARNINGS PER SHARE	*8*		
– Basic *(HK cents per share)*		**(0.63)**	0.90
– Diluted *(HK cents per share)*		**(0.63)**	0.90

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	31.12.2011 (unaudited) *HK$'000*	30.6.2011 (audited) *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**584,511**	592,464
Prepaid lease payments	**121,346**	121,707
Deposits for acquisition of plant and equipment	**3,519**	8,743
	709,376	722,914
CURRENT ASSETS		
Inventories	**188,065**	204,825
Trade and other receivables	**264,372**	373,851
Pledged bank deposits	**514,670**	337,936
Bank balances and cash	**1,178,832**	847,166
	2,145,939	1,763,778
CURRENT LIABILITIES		
Trade and other payables	**1,014,527**	740,158
Tax liabilities	**7,101**	4,214
Secured bank borrowings	**879,506**	796,506
Obligations under finance leases	**21,991**	20,688
Deferred income	**710**	693
	1,923,835	1,562,259
NET CURRENT ASSETS	**222,104**	201,519
TOTAL ASSETS LESS CURRENT LIABILITIES	**931,480**	924,433
CAPITAL AND RESERVES		
Share capital	**10,406**	10,406
Share premium and reserves	**890,526**	876,488
	900,932	886,894
NON-CURRENT LIABILITIES		
Obligations under finance leases	**15,109**	25,658
Deferred income	**2,840**	3,464
Deferred tax liabilities	**12,599**	8,417
	30,548	37,539
	931,480	924,433

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2011

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.

In the current period, the Group has applied, for the first time, a number of Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretation ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on or after 1 July 2011.

HKAS 24 (Revised)	Related Party Disclosures
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The application of the above new or revised HKFRS(s) in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

The Group has not applied any new and revised standards, amendments or interpretations which are not yet effective for the current period.

HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[1]
HKAS 19 (Revised)	Employee Benefits[3]
HKAS 27 (Revised)	Separate Financial Statements[3]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[3]
HKAS 32 (Revised)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[3]

[1] *Effective for annual periods beginning on or after 1 January 2012*

[2] *Effective for annual periods beginning on or after 1 July 2012*

[3] *Effective for annual periods beginning on or after 1 January 2013*

[4] *Effective for annual periods beginning on or after 1 January 2014*

[5] *Effective for annual periods beginning on or after 1 January 2015*

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

3. SEGMENT INFORMATION

Information reported to the Board of 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 makers assess the performance of the operating segments based on sales and net profit.

	Cotton yarn *HK$'000*	**Garment fabrics** *HK$'000*	**Total** *HK$'000*
Six months ended 31 December 2011			
Total sales	**503,760**	**420,924**	**924,684**
Inter-segment sales	**(10,489)**	**–**	**(10,489)**
Turnover (from external customers)	**493,271**	**420,924**	**914,195**
Segment results	**(78,170)**	**105,237**	**27,067**
Income tax expense			**(30,468)**
Central administration costs			**(3,190)**
Loss for the period			**(6,591)**
Depreciation and amortisation	**(20,645)**	**(14,602)**	**(35,247)**

	Cotton yarn *HK$'000*	Garment fabrics *HK$'000*	Total *HK$'000*
Six months ended 31 December 2010			
Total sales	173,104	225,683	398,787
Inter-segment sales	(23,049)	(3,861)	(26,910)
Turnover (from external customers)	150,055	221,822	371,877
Segment results	11,930	774	12,704
Income tax expense			(890)
Central administration costs			(2,410)
Profit for the period			9,404
Depreciation and amortisation	(17,369)	(14,159)	(31,528)

4. FINANCE COSTS

	Six months ended	
	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on		
– Bank borrowings wholly repayable within five years	**36,409**	20,068
– Finance leases	**2,014**	2,763
	38,423	22,831

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**26,494**	862
Deferred tax	**3,974**	28
	30,468	890

Hong Kong Profits Tax is calculated at 16.5% (1.7.2010 to 31.12.2010: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 31 December 2010 and 2011.

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$3,974,000 (1.7.2010 to 31.12.2010: HK$28,000) 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 ended 31 December 2011 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.

6. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**33,838**	31,445
Release of prepaid lease payments	**1,443**	1,863
Allowance of inventory	**51,802**	–
Interest income	**(6,697)**	(990)

7. DIVIDEND

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2010: Nil).

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/Earnings		
(Loss)/profit for the period attributable to the owners of the Company and (loss)/earnings for the purposes of basic and diluted (loss)/earnings per share	**(6,591)**	9,404

	Six months ended	
	31.12.2011	31.12.2010
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**1,040,602**	1,040,602

The calculation of diluted loss per share in 2011 has not assumed the exercise of the share options as these potential ordinary shares are anti-dilutive during 2011.

The computation of diluted (loss)/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 the periods ended 31 December 2010 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and financial review

The Group is principally engaged in the manufacture and sale of cotton 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 cotton yarn is used for knitting into pure cotton knit fabrics and considerably sold to external customers and the remaining for internal use. 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 would participate in textile fairs held both local and overseas so as to promote and sell its products to more customers.

Turnover

For the Period, the Group recorded a turnover of approximately HK$914,195,000 (2010: HK$371,877,000), approximately 145.8% more than that in 2010. The increase in turnover was attributable to significant increase in sales of cotton yarn and garment fabrics during the Period. The former was due to more efficient production carried out in Zhengzhou city as all the production lines operated throughout the whole Period when compared with the corresponding period in 2010, while the latter was due to soaring sales volume as a result of a strengthen of the sales and marketing team for garment fabrics and re-organization of the sales distributors.

Gross Profit

The gross profit margin of the Group of approximately 15.7% in the Period was at the same level as that in 2010 of approximately 15.7%. It was mainly due to the augment in commercial sales of cotton yarn and garment fabrics but simultaneously, a rise in raw material costs incurred during the Period.

(Loss)/Profit for the Period

The Group's loss for the Period was approximately HK$6,591,000 (profit in 2010: HK$9,404,000). Net loss margin for the Period of approximately 0.7% (net profit margin in 2010: 2.5%) was due to a number of adverse factors including the rise in raw material costs, the increase in allowance of inventory, the increase in finance costs and general rise of expenses arising from the inflation happened during the Period.

Other income

The Group's other income for the Period was approximately HK$8,084,000 (2010: HK$6,204,000), approximately 30.3% more than that in 2010. Such increase in the Period was attributable to the interest income received during the Period as a consequence of an increase in bank deposits.

Expenses

Administrative expenses amounted to approximately HK$21,662,000 (2010: HK$19,445,000), representing approximately 2.4% (2010: 5.2%) of turnover for the Period. Administrative expenses increased by approximately 11.4% when compared with that of 2010. It was due to general rise of expenses arising from the inflation happened during the Period.

Selling and distribution costs amounted to approximately HK$14,933,000 (2010: HK$10,710,000), representing approximately 1.6% (2010: 2.9%) of turnover for the Period. Selling and distribution costs increased by approximately 39.4% when compared with that of 2010. It was a consequence of the surge in sales of cotton yarn and garment fabrics throughout the Period.

Other expenses amounted to approximately HK$1,258,000 (2010: HK$1,346,000), representing approximately 0.1% (2010: 0.4%) of turnover for the Period. The decrease was due to less allowance for doubtful debts provided during the Period.

Allowance of inventory amounted to approximately HK$51,802,000 (2010: Nil), representing approximately 5.7% (2010: Nil) of turnover for the Period. The upsurge was attributable to the written down of several raw material costs for the production of cotton yarn as a result of their drop off in the market values.

Finance costs amounted to approximately HK$38,423,000 (2010: HK$22,831,000), representing approximately 4.2% (2010: 6.1%) of turnover for the Period. The substantial increase was due to more bank loans and bills undertaken by the Group for the operation of both plants in Zhengzhou city and Changle city during the Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2010: Nil).

FUTURE PLANS AND PROSPECTS

The Group believes that the operating environment of Chinese textile exports prolongs 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 products on hand in order to meet the needs of dynamic textile and garment markets.

The full production capacity of all production lines in Zhengzhou city is approximately 16,000 tons per annum. Cotton of good quality is used for spinning premium yarn which is targeted at the mid to high-end markets. Majority of cotton yarn is sold to external customers while the remaining is for internal use. Ultimately, the yarn for knitting into pure cotton knit fabrics spun at the Zhengzhou plant completes its dyeing process in the Changle plant. The above processes will enable the Group to further develop the vertical integration of its production. Both plants' production capacities are expected to be utilized completely in the future, thus, it is anticipated that favourable results would be achieved by the Group given the worldwide economy recovery from its downturn.

The future development of the textile industry in the PRC is still expected to confront significant challenges and many uncertainties in the business environment, such as rising raw material costs, the intensifying international trade protectionism, continuous economic recession in Europe and consistent 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 31 December 2011, the Group had net current assets and total assets less current liabilities of approximately HK$222,104,000 (30 June 2011: HK$201,519,000) and HK$931,480,000 (30 June 2011: HK$924,433,000), respectively. The Group maintains a moderate financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 31 December 2011, the Group had cash and bank deposits of approximately HK$1,693,502,000 (30 June 2011: HK$1,185,102,000). The current ratio of the Group was approximately 111.5% (30 June 2011: 112.9%).

Shareholders' fund of the Group as at 31 December 2011 was approximately HK$900,932,000 (30 June 2011: HK$886,894,000). As at 31 December 2011, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB712,400,000 were equivalent to HK$879,506,000 (30 June 2011: HK$796,506,000); and obligations under finance leases for machinery and equipment of approximately HK$37,100,000 (30 June 2011: HK$46,346,000), altogether giving a gross debt gearing ratio (i.e. total borrowings/shareholders' fund) of approximately 101.7% (30 June 2011: 95.0%).

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 fair financial position throughout the Period 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 31 December 2011, the total banking facilities of the Group amounted to about HK$1,565,149,000 (30 June 2011: HK$1,418,051,000), of which, approximately HK$1,409,862,000 (30 June 2011: HK$1,161,642,000) 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 2011, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the Period, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and consider hedging significant interest rate change exposure should the need arise.

CHARGE ON GROUP'S ASSETS

As at 31 December 2011, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$335,129,000 (30 June 2011: HK$335,583,000) and approximately HK$121,665,000 (30 June 2011: HK$127,524,000), 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$514,670,000 (30 June 2011: HK$337,936,000).

As at 31 December 2011, the aggregate carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$122,288,000 (30 June 2011: HK$125,048,000).

STAFF POLICY

The Group had 1,260 employees altogether in the PRC and Hong Kong as at 31 December 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 (Cap. 485 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 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 Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Having made specific enquiry of all directors of the Company (the "Directors"), all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

The Company has 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.

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 interim report for the period ended 31 December 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, 24 February 2012

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.