



*Sparks of life*

**ARTINI**

雅天妮

Phoenix Uprising

**ARTINI CHINA CO. LTD. 雅天妮中國有限公司**

Interim Report 2012-13

ARTINI is the pioneer of fashion accessories and gift and premium items, leading the highly segmented market.



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**ARTINI**

# Corporate Information

## BOARD OF DIRECTORS

### Executive Director

Ms. Yip Ying Kam (*Vice Chairman,  
Chief Executive and Chief Operational Officer*)

### Non-executive Director

Mr. Tse Chiu Kwan (*Non-executive Chairman*)

### Independent Non-executive Directors

Mr. Lau Fai Lawrence  
Mr. Lau Yiu Kit  
Mr. Chan Shu Hung Joseph

## AUDIT COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)  
Mr. Lau Yiu Kit  
Mr. Chan Shu Hung Joseph

## REMUNERATION COMMITTEE

Mr. Chan Shu Hung Joseph (*Chairman*)  
Mr. Tse Chiu Kwan  
Mr. Lau Fai Lawrence  
Mr. Lau Yiu Kit

## NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)  
Mr. Tse Chiu Kwan  
Mr. Lau Yiu Kit  
Mr. Chan Shu Hung Joseph

## COMPANY SECRETARY

Mr. Cheung Yuk Chuen, *FCCA, HKICPA*

## AUTHORISED REPRESENTATIVES

Ms. Yip Ying Kam  
Mr. Cheung Yuk Chuen, *FCCA, HKICPA*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat B1, 1st Floor  
Kaiser Estate, Phase 1  
41 Man Yue Street  
Hung Hom  
Hong Kong

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited  
The Hongkong and Shanghai Banking Corporation  
Limited

## LEGAL ADVISERS

Reed Smith Richards Butler  
Guangdong Zhiming Lawfirm  
Conyers Dill & Pearman  
Gonçalves Pereira, Rato, Ling, Vong & Cunha  
– Avenida da Amizade

## COMPLIANCE ADVISER

Guangdong Securities Limited

## AUDITOR

Mazars CPA Limited

## INVESTOR RELATIONS

PR ASIA Consultants Limited

## COMPANY'S WEBSITE

[www.artini-china.com](http://www.artini-china.com)

## STOCK CODE

789

# Management Discussion and Analysis

## BUSINESS REVIEW

For the six months ended 30 September 2012 (the "Period"), the Group recorded a total turnover of approximately HK\$105,732,000 (2011: HK\$171,466,000), representing a decrease of 38.3% as compared with the same period last year. The decrease was mainly due to the reduction in retail points compared with the same period last year following the strategic restructuring of the Group's overall business development. Gross profit was HK\$50,513,000 (2011: HK\$59,122,000), representing a decrease of 14.6% as compared with the same period last year. During the Period, loss attributable to the owners of the Company further narrowed to HK\$18,868,000 (2011: loss of HK\$52,033,000). Loss per share was HK\$0.015 (2011: loss of HK\$0.042).

## RETAIL BUSINESS

The Group continued to simultaneously develop the retail business of its proprietary brands "Artini" and "Q'ggle". During the Period, the Group's "Artini" brand launched the "Phoenix Uprising (鳳凰再現)" series with satisfactory results. It is expected that the Group will present more fashionable jewellery series with higher quality to its customers after the restructuring of its business.

During the Period, the Group adhered to stringent cost control measures by undergoing internal resources integration, streamlining the labour structure and cutting down expenses. Meanwhile, the Group reorganised its retail network by strategically closing down certain retail shops with unsatisfactory performance so as to lower operating costs. As at 30 September 2012, the Group had approximately 30 retail points (2011: 100 retail points) in total throughout Mainland China and Hong Kong, covering more than 10 cities in the People's Republic of China ("PRC"). During the Period, the retail business recorded a turnover of HK\$22,842,000 (2011: HK\$42,221,000), accounting for approximately 21.6% of the Group's total turnover and representing a decrease of 45.9% compared with the same period last year. The Group will continue to strengthen the distributorship business model to expand its sales network and online marketing resources, and restructure its business development in a more cost-effective manner.

Through consistently adopting the Customer Relationship Management ("CRM") plan, the Group was able to enhance the loyalty of its customers. As at 30 September 2012, the number of VIP customers of "Artini" was 113,411, representing an increase of 4.7% over the same period last year; while the number of VIP customers of "Q'ggle" increased by 3.9% to 52,477. Loyal customers contributed the majority of the Group's revenue. By analyzing the shopping habits of our VIP customers, the Group has strategically planned and promoted our retail business and other promotional activities to further develop a series of new products catering to our customers' preferences.

## CONCURRENT DESIGN MANUFACTURING ("CDM") BUSINESS

Due to the ongoing economic uncertainty in Europe and the United States, the Group's CDM business recorded a decrease of 35.9% from the same period last year to HK\$82,890,000 (2011: HK\$129,245,000) during the Period.

During the Period, the Group actively maintained close cooperation with internationally renowned brands, concurrently designed and manufactured their branded products, and ultimately exported and distributed these products worldwide. The internationally renowned brands that are in cooperation with the Group include Marks & Spencer, Disney, Nine West, Nautica, Guess, Carolee, Tchibo, etc.

The Group has been actively expanding its business in the gift and premium goods market in the PRC through providing one-stop gift and premium goods services to large domestic enterprises. The Group is also setting up a showroom in its Hong Kong's headquarters to give its customers a personal experience on the unique design and exquisite

## Management Discussion and Analysis

craftsmanship of the Group's products. Through online advertising of its proprietary gifts and CDM business, the Group expects to attain a higher marketing profile and related recognition. During the Period, the Group provided gifts and premium goods production services for Bank of China, China Post, Proya, etc.

### FINANCIAL REVIEW

For the Period, the Group recorded a total turnover of approximately HK\$105,732,000, representing a decrease of 38.3% as compared with the same period in 2011. The decrease was mainly due to the restructuring of the Group's business and the retail points. During the Period, the turnover of the retailing and distribution and CDM businesses were HK\$22,842,000 and HK\$82,890,000 respectively, accounting for 21.6% and 78.4% of the total turnover of the Group. The Group's turnover was mainly derived from the European, PRC (including Hong Kong), American and Russian markets, which accounted for 38.7%, 21.4%, 18.8% and 8.7% of the total turnover respectively, while the percentages for the same period last year were 31.1%, 34.7%, 13.8% and 9.04% respectively.

During the Period, gross profit decreased by 14.6% to HK\$50,513,000. Gross profit margin increased to 47.8% (2011: 34.5%). The cost of sales for the Period dropped by 50.8% from approximately HK\$112,344,000 for the six months ended 30 September 2011 to HK\$55,219,000. Due to changes in customer mix, the decrease in the cost of raw materials and stringent cost control, the overall gross profit margin was increased.

Selling and distribution costs for the Period decreased by 43.3% to HK\$44,833,000 as compared to HK\$79,129,000 for the corresponding period in 2011. This was mainly due to the gradual closure of stores with high rental or low profitability, and diverting distribution channels towards the distributorship business model and online sales platforms.

Income tax increased from HK\$159,000 for the six months ended 30 September 2011 to HK\$506,000 for the Period.

### Liquidity and Financial Resources

As at 30 September 2012, the bank loan of the Group amounted to HK\$15,616,000, which was denominated in Renminbi and secured by the pledging of a property with a carrying value of HK\$22,304,000 and repayable by 14 December 2013. As it was a loan containing a term that gave the bank an overriding right to demand repayment at any time without notice or with notice period of less than 12 months at its sole discretion, it was classified as a current liability even though the Directors did not expect that the bank would exercise its rights to demand repayment.

Apart from this bank loan, the Group also obtained general banking facilities which were secured by legal charges over certain of its properties with an aggregate carrying value of HK\$4,020,000 (31 March 2012: HK\$4,091,000) and cross corporate guarantee given by the Group. At the end of the period, banking facilities available to the Group amounted to HK\$503,000 (31 March 2012: HK\$503,000), which were utilised by the Group to the extent of HK\$463,000 (31 March 2012: HK\$463,000).

As at 30 September 2012, the Group's obligations under finance leases amounted to HK\$558,000. The Group monitors its capital structure on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratio of the Group was 23.0% as at 30 September 2012 (31 March 2012: 24.0%). The Group had time deposits and cash balances as at 30 September 2012 amounted to HK\$70,989,000 (31 March 2012: HK\$96,163,000).

The Group continues to adopt a policy of dealing principally with customers with whom the Group has enjoyed a long cooperation relationship so as to minimise credit risk in its business.

## Dividend

The Board does not recommend the payment of any interim dividends for the Period.

## Foreign Exchange Exposure

The main business activities of the Group take place in the PRC, the United States, Europe and Hong Kong with most transactions settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Board considers that the potential foreign exchange exposure of the Group is relatively limited. Moreover, the Group has not used any forward contracts or hedging products to hedge its interest rate or exchange rate risks during the Period. The management will, nonetheless, continue to monitor foreign currency risks and to learn more relevant information from financial institutions. During the Period, the Group recorded a net exchange loss of approximately HK\$423,000.

## Significant Investments and Acquisitions

During the Period, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries or associated companies. The Group continues to seek opportunities to acquire and cooperate with international customers in order to generate better returns for its shareholders and the Board will decide what the best available source of funding is for investments and acquisitions when suitable opportunities arise.

## Capital Commitments

As at 30 September 2012, the capital commitments contracted for were HK\$3,348,000 (31 March 2012: HK\$3,364,000).

## Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2012 (2011: Nil).

## Human Resources

As at 30 September 2012, the Group had approximately 1,000 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK\$26,832,000. To enhance the expertise, product knowledge, marketing skills and overall operational management skills of its employees, the Group organised regular training and development courses for its employees, and provided them with a competitive remuneration package, including salary, allowance, insurance, commission and bonus. Meanwhile, in order to create a harmonious and family-like working atmosphere, the Group emphasizes on listening to employees and continually developing paths for staff promotion.

## Investor Relations

The Group strongly believes that investor relations are important to a listed company. Maintaining relationships with investors and keeping them abreast of the latest corporate information and business development in a timely manner would enhance the transparency and corporate governance of the Group, thus strengthening its corporate position. Our investor relationship representatives will more actively participate in various investor-related activities.

## Management Discussion and Analysis

### PROSPECTS

During the Period, the management mainly worked on broadening sources of income, reducing unnecessary expenditures and costs and modifying management structure. Also, there were considerable achievements in enhancing motivation and quality of staff and promoting corporate culture. Looking ahead, on the ground of the above, the management will devote more efforts to expand business and sales channels, develop products and promote brand image for both retail and CDM businesses.

In respect of its brand business and to gear up for the development of retail business, the Group will strengthen online sales channels to broaden its source of income in the future. With stringent requirements on aesthetic value from our own design team, the Group will deliver premium and fashionable accessories that blends precious gemstones with unique designs and exquisite craftsmanship, so as to give a refreshing experience to its customers. On top of this, the Group also intends to further explore the high-end accessory market, enhance product value and diversify its customer base.

Besides, the Group proactively seeks to cooperate with different brands. It promoted the brand “Artini” in high-class events such as fashion shows and fashion culture exhibitions, with an aim to raise brand awareness among its target customers and maximise returns for the Group.

For its CDM business, the Group plans to tap into new regions and markets to identify more potential customers. In line with its business development, the Group will focus on providing the marketing team with professional training on product details, so that they can give detailed presentations to customers, thereby improving customer service standard and enhancing customer satisfaction. The Group cooperated with a number of large enterprises by designing and manufacturing souvenirs. Aside from maintaining close relationship with these enterprises, the Group will continue to identify new customers and enrich its product portfolio by using new materials, in a bid to seize greater opportunities. Apart from that, the Group will attach more importance to the expansion and development of the gifts market in the Mainland. Discussions on product line, pricing and positioning will be carried out to formulate a suitable development strategy for the Mainland market.

Sound business development rides on the total devotion of the Group’s professional team. In view of this, the Group will spend more efforts on strengthening internal corporate cultures by promoting the corporate spirit of “Artini is Me”. It will also provide regular training on manner, communication, management skills and team spirit for all staff members, in order to improve communication and cooperation among them and increase their working efficiency and sense of belonging. The Group would like to pursue future growth together with its employees.

Moreover, the Group will induce professional management personnel to join the team, in the hope that their extensive experience will lead to breakthroughs in raising the efficiency of the daily operations of the Group. Such professionals are also expected to support business expansion and generate long-term returns by leading the team to further develop new products and markets, promote the refined and fashionable products of the Group and solidify its corporate image by organising more marketing activities.

# Corporate Governance and Other Information

## CORPORATE GOVERNANCE

### Corporate Governance Practice

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company has complied with the code provisions in the CG Code for the Period, except for the following deviations:

- (1) Code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. From 1 April 2012 to 13 August 2012, the roles of chairman and chief executive officer of the Company were performed by Mr. Tse Chiu Kwan. From 14 August 2012 onwards, Ms. Yip Ying Kam is confirmed as the chief executive officer of the Company while Mr. Tse Chiu Kwan is re-designated as non-executive chairman and non-executive director of the Company, which allows a segregation of the roles of chairman and chief executive of the Company in accordance with the CG Code.
- (2) Code provision E.1.2 of the CG Code provides, inter alia, that the chairman of the board should attend the annual general meeting. The chairman of the Board was absent from the last annual general meeting of the Company held on 10 September 2012 (the “AGM”) due to health conditions. However, the chairmen of the audit, remuneration and nomination committees of the Company attended the AGM. The Company’s external auditor also attended the AGM to ensure questions about the conduct of the audit, the preparation and content of the auditor’s report, the accounting policies and auditor independence could be answered when necessary.

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. The Company was not in compliance with Rule 3.10(1) since the resignation of Mr. Fan Chung Yue, William as an independent non-executive director of the Company, members of the audit and nomination committees of the Company and chairman of the remuneration committee of the Company, with effect from 8 May 2012, which the number of independent non-executive directors of the Company reducing to two thereafter. In this regard, the Company immediately informed the Stock Exchange and made proper disclosure in its announcements containing the relevant details and reasons for the Company’s failure to meet the requirements. On 29 June 2012, the Company appointed Mr. Chan Shu Hung Joseph as an independent non-executive director of the Company and the requirement under the Listing Rules has been complied with since then.

### Model Code for Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code for the Period.

## Corporate Governance and Other Information

### Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all are the independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Mr. Lau Yiu Kit and Mr. Chan Shu Hung Joseph, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties and none of them is a former partner of the external auditors of the Company. The Audit Committee has reviewed the unaudited interim financial information and interim report for the Period.

### Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises four members, namely Mr. Chan Shu Hung Joseph (Chairman), Mr. Lau Fai Lawrence and Mr. Lau Yiu Kit, the independent non-executive Directors and Mr. Tse Chiu Kwan, a non-executive Director. The primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration of the Directors and senior management of the Company.

### Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Nomination Committee comprises four members, namely Mr. Lau Fai Lawrence (Chairman), Mr. Lau Yiu Kit and Mr. Chan Shu Hung Joseph, the independent non-executive Directors and Mr. Tse Chiu Kwan, a non-executive Director. The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

### Purchase, Sale or Redemption of the Company's Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Period.

## Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures

As at 30 September 2012, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

### *Long positions in shares of the Company*

Name of Directors	Company in which interests are disclosed	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted	Percentage of the issued share capital as at 30 September 2012
Tse Chiu Kwan	The Company	Corporate interest	648,088,000 (Note 1)	—	52.38%
		Beneficial interest	9,897,000	—	0.8%
	Fully Gain Company Ltd.	Beneficial interest	1	—	100%
Yip Ying Kam	The Company	Corporate interest	72,000,000 (Note 2)	—	5.82%
		Beneficial interest	—	12,000,000 (Note 3)	0.97%

#### Notes:

- These shares are held by Fully Gain Company Ltd., an associated corporation of the Company, which is wholly and beneficially owned by Mr. Tse Chiu Kwan.
- These shares are held by Excellent Gain International Holdings Limited which is wholly and beneficially owned by Ms. Yip Ying Kam.
- These options were granted by the Company under the share option scheme (the "Share Option Scheme") adopted by the Company on 23 April 2008.

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register of interests required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Corporate Governance and Other Information

### Directors' Right to Acquire Shares

Save as disclosed above, at no time during the Period was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

### Share Option Scheme

The Company adopted the Scheme on 23 April 2008. The purpose of the Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing value of the Company and its shares for the benefit of the Company and the shareholders of the Company as a whole. Details of share options movements during the Period under the Scheme are as follows:

Name of category	Date of grant of share options	Number of share options					Outstanding at 30.09.2012	Validity period of share options	Exercise price (HK\$)
		Outstanding at 01.04.2012	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period			
<b>Director</b>									
Yip Ying Kam	24.02.2012	12,000,000	—	—	—	—	12,000,000	24.02.2012–23.02.2018 (Note)	0.222
<b>Total</b>		<b>12,000,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>12,000,000</b>		

Note: A maximum of 50% of the total number of share options granted to the grantee on 24 February 2012 may be exercisable between 24 February 2012 and 23 February 2015. The remaining 50% of the total number of share options granted to the grantee may be exercisable between 24 February 2015 and 23 February 2018.

## Substantial Shareholders' Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2012, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

### *Long positions in shares of the Company*

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Nature of issued ordinary shares/ underlying shares held</b>	<b>Percentage of the issued share capital as at 30 September 2012</b>
Fully Gain Company Ltd. (Note 1)	Beneficial interest	648,088,000	52.38%
Excellent Gain International Holdings Limited (Note 2)	Beneficial interest	72,000,000	5.82%

Note 1: Fully Gain Company Ltd. is wholly and beneficially owned by Mr. Tse Chiu Kwan.

Note 2: Excellent Gain International Holdings Limited is wholly and beneficially owned by Ms. Yip Ying Kam.

Save as disclosed above, as at 30 September 2012, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

## Corporate Governance and Other Information

### Disclosure of Information on Directors

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on Directors are as follows:

Mr. Tse Chiu Kwan ("Mr. Tse") was re-designated as the non-executive chairman and a non-executive director of the Company and ceased to be the chief executive of the Company and the authorized representative of the Company under the Listing Rules and the Company Ordinance on 14 August 2012. Mr. Tse has entered into a new service contract with the Company for an initial term of 3 years commencing on 14 August 2012 which may be terminated after the first year of appointment by either party giving to the other not less than 3 months' prior notice in writing. Mr. Tse is entitled to a monthly salary of HK\$450,000 (on a 13-month basis and, in aggregate, HK\$5,850,000 per year) and a monthly housing allowance of HK\$40,800 which were determined by reference to the prevailing market rate and his experience and contribution to the Company.

Ms. Yip Ying Kam ("Ms. Yip") was appointed as acting chief executive officer of the Company and alternative authorized representative of the Company on 29 July 2012 and was confirmed as the chief executive officer of the Company and authorized representative of the Company under the Listing Rules and the Company Ordinance on 14 August 2012. Ms. Yip also was appointed as the chief operational officer of the Company with effect from 11 May 2012. Ms. Yip has entered into a new service contract with the Company for an initial term of 3 years commencing on 14 August 2012 which may be terminated after the first year of appointment by either party giving to the other not less than 3 months' prior notice in writing. Ms. Yip is entitled to a monthly salary of HK\$680,000 (on a 13-month basis and, in aggregate, HK\$8,840,000 per year) and a monthly housing allowance of HK\$102,300 which were determined by reference to the prevailing market rate and her experience and contribution to the Company at the relevant time. Ms. Yip is also entitled to a discretionary bonus for each financial year to be determined by the Board.

By order of the Board  
**Artini China Co. Ltd.**  
**Yip Ying Kam**  
*Executive Director*

Hong Kong, 28 November 2012

# Condensed Consolidated Income Statement

for the six months ended 30 September 2012  
(Expressed in Hong Kong dollars)

		Unaudited	
		For the six months ended 30 September	
	Note	2012 HK\$'000	2011 HK\$'000
<b>Turnover</b>	4	<b>105,732</b>	171,466
Cost of sales		<b>(55,219)</b>	(112,344)
<b>Gross profit</b>		<b>50,513</b>	59,122
Other revenue	5	<b>1,842</b>	1,581
Other net (losses) gains	6	<b>(1,024)</b>	2,408
Selling and distribution costs		<b>(44,833)</b>	(79,129)
Administrative expenses		<b>(23,751)</b>	(23,812)
Other operating expenses		<b>(314)</b>	(11,714)
<b>Loss from operations</b>		<b>(17,567)</b>	(51,544)
Finance costs	7(a)	<b>(808)</b>	(597)
<b>Loss before taxation</b>	7	<b>(18,375)</b>	(52,141)
Income tax	8	<b>(506)</b>	(159)
<b>Loss for the period</b>		<b>(18,881)</b>	(52,300)
<b>Attributable to:</b>			
Owners of the Company		<b>(18,868)</b>	(52,033)
Non-controlling interests		<b>(13)</b>	(267)
<b>Loss for the period</b>		<b>(18,881)</b>	(52,300)
<b>Loss per share (HK\$)</b>	10		
Basic and diluted		<b>(0.015)</b>	(0.042)

The notes on pages 19 to 28 form part of this interim financial report.

# Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2012  
(Expressed in Hong Kong dollars)

	Unaudited	
	For the six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
<b>Loss for the period</b>	<b>(18,881)</b>	(52,300)
<b>Other comprehensive income:</b>		
Exchange differences on consolidation	<b>(637)</b>	5,695
<b>Total comprehensive loss for the period, net of tax</b>	<b>(19,518)</b>	(46,605)
<b>Attributable to:</b>		
Owners of the Company	<b>(19,505)</b>	(46,338)
Non-controlling interests	<b>(13)</b>	(267)
<b>Total comprehensive loss for the period, net of tax</b>	<b>(19,518)</b>	(46,605)

The notes on pages 19 to 28 form part of this interim financial report.

# Condensed Consolidated Statement of Financial Position

as at 30 September 2012  
(Expressed in Hong Kong dollars)

	<i>Note</i>	As at 30 September 2012 (unaudited) HK\$'000	As at 31 March 2012 (audited) HK\$'000
<b>Non-current assets</b>			
Fixed assets			
— Property, plant and equipment		62,037	68,824
— Investment properties		8,076	8,306
— Interests in leasehold land held for own use under operating leases		8,831	9,208
Intangible assets		1,797	3,180
Rental deposits		2,079	3,093
Deferred tax assets		11,808	11,841
		<b>94,628</b>	104,452
<b>Current assets</b>			
Trading securities		1,702	4,891
Inventories		81,056	65,327
Trade and other receivables	11	63,065	69,070
Current tax recoverable		955	955
Cash and cash equivalents		70,989	96,163
		<b>217,767</b>	236,406
<b>Current liabilities</b>			
Trade and other payables	12	54,758	57,402
Bank loans		15,616	20,101
Obligations under finance leases		558	1,067
Current tax payable		1,079	1,428
		<b>72,011</b>	79,998
<b>Net current assets</b>		<b>145,756</b>	156,408
<b>Total assets less current liabilities</b>		<b>240,384</b>	260,860

## Condensed Consolidated Statement of Financial Position

as at 30 September 2012  
(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>As at 30 September 2012 (unaudited) HK\$'000</b>	As at 31 March 2012 (audited) HK\$'000
<b>Non-current liabilities</b>			
Obligations under finance leases		—	81
Deferred tax liabilities		<b>605</b>	607
		<b>605</b>	688
<b>NET ASSETS</b>		<b>239,779</b>	260,172
<b>CAPITAL AND RESERVES</b>			
Share capital	13	<b>123,732</b>	123,732
Reserves		<b>115,778</b>	135,948
<b>Total capital and reserves attributable to owners of the Company</b>		<b>239,510</b>	259,680
<b>Non-controlling interests</b>		<b>269</b>	492
<b>TOTAL EQUITY</b>		<b>239,779</b>	260,172

The notes on pages 19 to 28 form part of this interim financial report.

# Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 September 2012 — unaudited  
(Expressed in Hong Kong dollars)

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000	Share-based capital reserve HK\$'000	Legal reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2011	123,732	549,974	(19,615)	27,692	21,755	22,096	97	(333,159)	392,572	1,441	394,013
Changes in equity for the six months ended 30 September 2011:											
Total comprehensive loss for the period	—	—	—	5,695	—	—	—	(52,033)	(46,338)	(267)	(46,605)
Equity-settled share-based transactions	—	—	—	—	—	(20,037)	—	21,671	1,634	—	1,634
Balance at 30 September 2011	123,732	549,974	(19,615)	33,387	21,755	2,059	97	(363,521)	347,868	1,174	349,042
Balance at 1 April 2012	123,732	549,974	(19,615)	35,808	21,755	610	97	(452,681)	259,680	492	260,172
Changes in equity for the six months ended 30 September 2012:											
Total comprehensive loss for the period	—	—	—	(637)	—	—	—	(18,868)	(19,505)	(13)	(19,518)
Step-acquisition during the period	—	—	(665)	—	—	—	—	—	(665)	(210)	(875)
Balance at 30 September 2012	123,732	549,974	(20,280)	35,171	21,755	610	97	(471,549)	239,510	269	239,779

The notes on pages 19 to 28 form part of this interim financial report.

# Condensed Consolidated Statement of Cash Flows

for the six months ended 30 September 2012  
(Expressed in Hong Kong dollars)

	<b>Unaudited</b>	
	<b>For the six months ended 30 September</b>	
	<b>2012 HK\$'000</b>	<b>2011 HK\$'000</b>
<b>Net cash used in operations</b>	<b>(21,593)</b>	(4,159)
<b>Tax paid</b>	<b>(824)</b>	(210)
<b>Net cash used in operating activities</b>	<b>(22,417)</b>	(4,369)
<b>Net cash generated from/(used in) investing activities</b>	<b>4,190</b>	(9,083)
<b>Net cash used in financing activities</b>	<b>(6,665)</b>	(1,642)
<b>Net decrease in cash and cash equivalents</b>	<b>(24,892)</b>	(15,094)
<b>Cash and cash equivalents at 1 April</b>	<b>96,163</b>	131,117
<b>Effect of foreign exchange rate changes</b>	<b>(282)</b>	1,942
<b>Cash and cash equivalents at 30 September</b>	<b>70,989</b>	117,965

The notes on pages 19 to 28 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

## 1 COMPANY BACKGROUND

The Company was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Bermuda Companies Act 1981. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 May 2008. The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing, retailing and distribution and concurrent design manufacturing ("CDM") of fashion accessories.

## 2 BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011/2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012/2013 annual financial statements. Details of these changes in accounting policies are set out in note 3. This interim financial report should be read in conjunction with the 2011/12 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the 2011/12 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31 March 2012 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2012 are available from the Company's registered office.

## Notes to the Unaudited Interim Financial Report

### 3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in preparing the unaudited interim financial report for the six months ended 30 September 2012 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 March 2012, except for the impact of the adoption of the new standards, amendments and interpretations which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 April 2012:

Amendments to HKFRS 7  
Amendments to HKAS 12

*Disclosures — Transfers of Financial Assets<sup>1</sup>*  
*Deferred Tax: Recovery of Underlying Assets<sup>2</sup>*

<sup>1</sup> Effective for the annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for the annual periods beginning on or after 1 January 2012

The adoption of these new or revised Hong Kong Financial Reporting Standards in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted any new standards, amendments to standards and interpretations, which have been issued but are not effective for the financial year beginning 1 April 2012. The Group has commenced an assessment of the related impact but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will be resulted.

The method of calculations adopted in preparing the unaudited interim financial report for the six months ended 30 September 2012 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

## 4 SEGMENT REPORTING

The segment results for the six months ended 30 September 2012 and 2011 are presented below:

Six months ended 30 September 2012 — unaudited						
Retailing and distribution						
	Mainland China HK\$'000	Hong Kong and Macao HK\$'000	Sub-total HK\$'000	CDM sales HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue from external customers	18,012	4,830	22,842	82,890	—	105,732
Inter-segment revenue	—	—	—	5,650	(5,650)	—
Reportable segment revenue	18,012	4,830	22,842	88,540	(5,650)	105,732
Reportable segment profit/(loss)	(12,376)	(6,248)	(18,624)	24,091	—	5,467
Unallocated expenses						(24,348)
Loss for the period						(18,881)

Six months ended 30 September 2011 — unaudited						
Retailing and distribution						
	Mainland China HK\$'000	Hong Kong and Macao HK\$'000	Sub-total HK\$'000	CDM sales HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue from external customers	29,490	12,731	42,221	129,245	—	171,466
Inter-segment revenue	—	—	—	15,719	(15,719)	—
Reportable segment revenue	29,490	12,731	42,221	144,964	(15,719)	171,466
Reportable segment profit/(loss)	(27,964)	(5,373)	(33,337)	13,831	—	(19,506)
Unallocated expenses						(32,794)
Loss for the period						(52,300)

## Notes to the Unaudited Interim Financial Report

### 5 OTHER REVENUE

	Unaudited	
	For the six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Dividend income from listing securities	—	47
Services income	16	1,189
Rental income	255	—
Interest income	1,317	309
Others	254	36
	<b>1,842</b>	<b>1,581</b>

### 6 OTHER NET (LOSSES) GAINS

	Unaudited	
	For the six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Net exchange losses	(423)	(692)
Net loss on disposal of property, plant and equipment	—	(9)
Net realised and unrealised gains (losses) on trading securities	199	(9,860)
Compensation for termination of licence	(800)	—
Compensation for losses on a fire accident	—	9,369
Reversal of allowance for impairment loss on loan receivable	—	3,600
	<b>(1,024)</b>	<b>2,408</b>

## 7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Unaudited For the six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	770	504
Finance charges on obligations under finance leases	38	93
	<b>808</b>	597
(b) Other items:		
Depreciation		
— assets held for use under finance lease	373	600
— other assets	6,930	13,006
Amortisation — Intangible assets	1,500	2,612
Advertising and promotion expenses	7,494	4,209
Operating lease charges in respect of properties:		
— minimum lease payments	12,862	23,387
— contingent rent	2,204	5,620

## Notes to the Unaudited Interim Financial Report

### 8 INCOME TAX

	Unaudited	
	For the six months ended	
	30 September	
	2012	2011
	HK\$'000	HK\$'000
<b>Current tax — Hong Kong Profits tax</b>		
Under-provision in prior years	148	—
<b>Current tax — PRC Enterprise income tax</b>		
Provision for the period	789	1,117
Over-provision in prior years	(431)	—
<b>Deferred tax</b>		
Origination and reversal of temporary differences	—	(958)
<b>Income tax expense</b>	<b>506</b>	<b>159</b>

Notes:

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to income tax in Bermuda and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2012 as there was no assessable profits in Hong Kong for the period.
- (iii) Arts Empire Macao Commercial Offshore Limited was established as a Macao offshore company under the Macao Offshore Law and is exempted from the Macao Complementary Tax.
- (iv) Alfreda International Company Limited is subject to the Macao Complementary Tax. No provision is made during the period as the company sustained tax losses.
- (v) Pursuant to the Enterprise Income Tax Law of the People's Republic of China (the "New Tax Law"), effective from 1 January 2008, the statutory income tax rate applicable to the Company's subsidiaries in Shenzhen has changed from 15% to 25% progressively under a 5-year transition period from calendar years 2008 to 2012 (2008: 18%; 2009: 20%; 2010: 22%; 2011: 24%; 2012: 25%). For the subsidiary located in Hai Feng, the statutory income tax rate has changed from 24% to 25% from 1 January 2008.
- (vi) Under the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC entities. However, only the dividends attributable to the profits of the financial period starting from 1 January 2008 are subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Group is subject to a withholding tax at the rate of 5% for any dividend payments from certain of the Group's PRC subsidiaries.

## 9 DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 September 2012 (six months ended 30 September 2011: Nil).

## 10 LOSS PER SHARE

The calculation of the basic and diluted loss per share is as follows:

### (a) Basic loss per share

	Unaudited For the six months ended 30 September	
	2012	2011
Loss attributable to owners of the Company (HK\$'000)	<b>18,868</b>	52,033
Weighted average number of ordinary shares At 1 April and at 30 September	<b>1,237,320,323</b>	1,237,320,323
Basic loss per share (HK\$)	<b>0.015</b>	0.042

### (b) Diluted loss per share

Diluted loss per share amounts for the current and prior periods are the same as the basic loss per share amounts as the potential ordinary shares outstanding during both periods had an anti-dilutive effect on the basic loss per share amounts for the current and prior periods.

## Notes to the Unaudited Interim Financial Report

### 11 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis:

	At 30 September 2012 (unaudited) HK\$'000	At 31 March 2012 (audited) HK\$'000
Current	21,112	18,335
Less than 3 months past due	12,588	11,282
3 to 6 months past due	5,157	2,468
Over 6 months past due	5,793	1,695
Total debtors, net of impairment losses	44,650	33,780
Deposits, prepayments and other receivables	18,415	35,290
	<b>63,065</b>	<b>69,070</b>

The Group continues to adopt a policy of dealing principally with customers with whom the Group has enjoyed a long cooperation relationship so as to minimise credit risk in its business.

All of the trade and other receivables are expected to be recovered within one year.

Impairment losses in respect of trade debtors are recorded using an allowance for doubtful debt account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

## 12 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

	<b>30 September 2012 (unaudited) HK\$'000</b>	31 March 2012 (audited) HK\$'000
By date of invoice:		
Within 3 months	<b>10,632</b>	10,760
More than 3 months but within 6 months	<b>2,452</b>	1,842
More than 6 months but within 1 year	<b>2,174</b>	1,255
Over 1 year	<b>569</b>	74
Trade creditors	<b>15,827</b>	13,931
Receipts in advance	<b>11,004</b>	11,036
VAT and other tax payables	<b>1,578</b>	1,552
Provision for onerous contracts	<b>1,174</b>	1,188
Accrued charges and other payables	<b>25,175</b>	29,695
	<b>54,758</b>	57,402

All of the trade and other payables are expected to be settled within one year. Receipts in advance are expected to be recognised as income within one year.

## 13 SHARE CAPITAL

	<b>Unaudited At 30 September 2012</b>		Audited At 31 March 2012	
	<b>Number of shares</b>	<b>Amount HK\$'000</b>	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<b>3,000,000,000</b>	<b>300,000</b>	3,000,000,000	300,000
Issued and fully paid:				
At the beginning and the end of the period	<b>1,237,320,323</b>	<b>123,732</b>	1,237,320,323	123,732

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares ranked equally with regard to the Company's residual assets.

## Notes to the Unaudited Interim Financial Report

### 14 CAPITAL COMMITMENTS

	<b>30 September 2012 (unaudited) HK\$'000</b>	31 March 2012 (audited) HK\$'000
Contracted for	<b>3,348</b>	3,364