ARTINI

雅天妮中國有限公司

# ARTINI CHINA CO. LTD.

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 789)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2008

## HIGHLIGHTS

1. The Reorganisation of the Group took place prior to its listing on the Stock Exchange on 16 May 2008. Since the Reorganisation was not completed until 23 April 2008, the Group prepared its combined annual results including the entities comprising the Group for the years ended 31 March 2007 and 2008 as if the combined entities had been in existence throughtout the years presented.

2. Turnover increased by approximately 75.8% from approximately HK$339.5 million for the year ended 31 March 2007 to approximately HK$596.7 million for the year ended 31 March 2008.

3. Gross profit increased significantly by approximately 96.4% from approximately HK$191.7 million for the year ended 31 March 2007 to approximately HK$376.4 million for the year ended 31 March 2008, while our gross profit margin increased from approximately 56.5% to approximately 63.1% during the two years ended 31 March 2007 and 2008.

4. Profit for the year increased significantly by approximately 49.7% from HK$73.5 million for the year ended 31 March 2007 to approximately HK$110.0 million for the year ended 31 March 2008.

# RESULTS

The board (the "Board") of directors (the "Directors") of Artini China Co. Ltd. (the "Company") is pleased to announce the combined results of the Company and its subsidiaries (collectively referred to as the "Group" or "our Group") for the year ended 31 March 2008, with the comparative figures for the preceding financial year ended 31 March 2007, as follows:

## Combined income statement

*For the year ended 31 March 2008*

| | *Note* | **2008** *HK$'000* | 2007 *HK$'000* |
|---|---|---|---|
| **Turnover** | 3 | **596,739** | 339,480 |
| Cost of sales | | **(220,313)** | (147,784) |
| **Gross profit** | | **376,426** | 191,696 |
| Other revenue | 4 | **246** | 546 |
| Other net loss | 5 | **(8,223)** | (872) |
| Selling and distribution costs | | **(195,883)** | (75,223) |
| Administrative expenses | | **(40,650)** | (31,312) |
| Other operating expenses | | **(1,479)** | (580) |
| **Profit from operations** | | **130,437** | 84,255 |
| Finance costs | 6(a) | **(3,996)** | (2,779) |
| **Profit before taxation** | 6 | **126,441** | 81,476 |
| Income tax | 7 | **(16,417)** | (7,988) |
| **Profit for the year attributable to equity shareholders of the Company** | | **110,024** | 73,488 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | | |
| Interim dividend declared and paid during the year | 8 | **69,000** | 16,000 |
| Special dividend proposed after the balance sheet date | 8 | **40,000** | — |
| Basic and diluted earnings per share (HK$) | 9 | **0.147** | 0.098 |

# Combined balance sheet

*As at 31 March 2008*

| | Note | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| — Property, plant and equipment | | **68,452** | 34,620 |
| — Interests in leasehold land held for own use under operating leases | | **21,745** | 21,238 |
| Intangible assets | | **593** | 592 |
| Rental deposits | | **10,130** | 1,630 |
| Deferred tax assets | | **4,294** | 1,321 |
| | | **105,214** | 59,401 |
| **Current assets** | | | |
| Inventories | | **56,491** | 27,949 |
| Trade and other receivables | 10 | **153,300** | 115,724 |
| Tax recoverable | | **721** | 2,000 |
| Cash and cash equivalents | | **59,356** | 24,032 |
| | | **269,868** | 169,705 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **63,492** | 52,203 |
| Bank loans and overdrafts | | **114,142** | 27,376 |
| Obligations under finance leases | | **345** | 321 |
| Current taxation | | **15,118** | 15,303 |
| | | **193,097** | 95,203 |
| **Net current assets** | | **76,771** | 74,502 |
| **Total assets less current liabilities** | | **181,985** | 133,903 |

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | | **26,427** | 32,046 |
| Obligations under finance leases | | **181** | 526 |
| Deferred tax liabilities | | **1,015** | 684 |
| | | **27,623** | 33,256 |
| **NET ASSETS** | | **154,362** | 100,647 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **385** | 384 |
| Reserves | | **153,977** | 100,263 |
| **TOTAL EQUITY** | | **154,362** | 100,647 |

**Notes:**

**1. Company background and basis of presentation**

**(a) General information**

The Company was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Companies Act 1981 (as amended) of Bermuda. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

As at 31 March 2008, 100 nil-paid shares were held by a group of ultimate equity shareholders (referred to as the "Controlling Shareholders"). The Company did not carry on any business during the period from the date of incorporation to 31 March 2008.

The financial statements have been approved for issue by the Board of Directors on 21 July 2008.

**(b) Reorganisation**

The Controlling Shareholders owned various companies which are principally engaged in the design, manufacturing, retailing and distribution and concurrent design manufacturing ("CDM") of fashion accessories. To rationalise the corporate structure for the public listing of the Company's shares on the Stock Exchange, the Company underwent a reorganisation (the "Reorganisation") to acquire all the companies set out below. The Reorganisation of the Company and the subsidiaries now comprising the Group was completed on 23 April 2008 and the Company became the holding company of the subsidiaries now comprising the Group.

Details of the Reorganisation are set out in the prospectus dated 2 May 2008 issued by the Company. The Company and its subsidiaries now comprising the Group as set out below are principally engaged in design, manufacturing, retailing and distribution and CDM of fashion accessories.

| Name of company | Place and date of incorporation/ establishment | Percentage of equity attributable to the Company Direct | Indirect | Issued and fully paid-up/registered capital | Principal activities |
|---|---|---|---|---|---|
| Alfreda International Company Limited | Macao 22 March 2007 | — | 100 | MOP50,000 | Retailing of fashion accessories |
| Artini International Company Limited | Hong Kong 16 July 2003 | — | 100 | HK$300,000 | Retailing of fashion accessories |
| Artini Sales Company Limited | Hong Kong 9 June 1992 | — | 100 | HK$10,000 | Trading of fashion accessories |
| Artist Empire Gifts & Premium Mfy. Limited | Hong Kong 11 February 2004 | — | 100 | HK$10,000 | Trading of fashion accessories |
| Artist Empire International Group Company Limited | Hong Kong 10 September 1996 | — | 100 | HK$10,000 | Investment holding |
| Artist Empire Jewellery Enterprise Company Limited | Hong Kong 2 April 2005 | — | 100 | HK$10,000 | Trading of fashion accessories and related raw materials |
| Artist Empire Jewellery Mfy. Limited | Hong Kong 8 September 2006 | — | 100 | HK$100 | Trading of fashion accessories |
| Artist Empire Silver Jewellery Mfy. Limited | Hong Kong 7 January 2004 | — | 100 | HK$10,000 | Trading of fashion accessories |
| Artist Empire (Hai Feng) Jewellery Mfy. Limited (note) | The People's Republic of China ("PRC") 28 March 2002 | — | 100 | HK$52,200,000 | Manufacturing and sale of fashion accessories |
| Artist Star International Development Limited | British Virgin Islands ("BVI") 7 December 2004 | 100 | — | US$1,000 | Investment holding |
| Artplus Investment Limited | Hong Kong 9 June 1992 | — | 100 | HK$10,000 | Trading of fashion accessories |
| Arts Empire Macao Commercial Offshore Limited | Macao 14 January 2005 | — | 100 | MOP200,000 | Trading of fashion accessories and related raw materials |

| Name of company | Place and date of incorporation/ establishment | Percentage of equity attributable to the Company Direct | Indirect | Issued and fully paid-up/registered capital | Principal activities |
|---|---|---|---|---|---|
| Bo-Wealth (Shenzhen) Trading Co. Ltd. (note) | PRC 19 October 2006 | — | 100 | HK$1,500,000 | Trading of fashion accessories |
| Elili Int'l Company Limited | Hong Kong 19 July 2006 | — | 100 | HK$100 | Trading of fashion accessories |
| Gain Trade Enterprise Limited | Hong Kong 15 October 2004 | — | 100 | HK$100 | Investment holding |
| Gentleman Investments Limited | Hong Kong 20 January 1993 | — | 100 | HK$10,000 | Investment holding |
| Ho Easy Limited | BVI 3 May 2004 | — | 100 | US$1 | Investment holding |
| Instar International Company Limited | BVI 25 November 2004 | — | 100 | US$100 | Investment holding |
| JCM Holdings Limited | BVI 7 December 2004 | — | 100 | US$500 | Investment holding |
| Keon Company Limited | Hong Kong 27 April 2005 | — | 100 | HK$10,000 | Provision of logistics services |
| King Erich International Development Limited | BVI 7 December 2004 | — | 100 | US$300 | Investment holding |
| Q'ggle Company Limited | Hong Kong 19 July 2006 | — | 100 | HK$100 | Retailing of fashion accessories |
| Riccardo International Trading Limited | BVI 7 December 2004 | — | 100 | US$700 | Investment holding |
| Shop Front Trading Limited | BVI 20 December 2000 | — | 100 | US$100 | Provision of product design services |
| Shenzhen Artini Fashion Accessories Co., Ltd. (note) | PRC 6 June 2006 | — | 100 | HK$20,000,000 | Retailing of fashion accessories |
| TCK Company Limited | BVI 25 November 2004 | — | 100 | US$100 | Trading of fashion accessories and related raw materials |

Note: These entities are wholly owned foreign enterprises established in the PRC. The English translation of the company names is for reference only. The official names of these companies are in Chinese.

**(c) Basis of presentation**

Note 1(b) describes the Reorganisation of the Group that took place prior to its listing on the Stock Exchange on 16 May 2008. Since the Reorganisation was not completed until 23 April 2008, the effect of the Reorganisation is not reflected in the Company's financial statements for the period from 30 May 2007 (date of incorporation) to 31 March 2008.

However, since all entities which took part in the Reorganisation were under common control of the Controlling Shareholders before and immediately after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and therefore this is considered as a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. These combined financial statements have been prepared by using the merger basis of accounting as if the Group had been in existence throughout the periods presented. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective.

Accordingly, the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the years ended 31 March 2007 and 2008 include the results of operations of the companies comprising the Group for the years ended 31 March 2007 and 2008 (or where the companies were established/incorporated at a date later than 1 April 2006, for the periods from the date of establishment/incorporation to 31 March 2008) as if the combined entities had been in existence throughout the years presented. The combined balance sheets of the Group as at 31 March 2007 and 2008 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the combined entities had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

These combined financial statements do not form part of the Company's financial statements for the period ended 31 March 2008. However, they will form the basis of the comparative information in the Company's financial statements for the year ending 31 March 2009. This is because, when adopting the merger basis of accounting, in the period in which the Reorganisation is first reflected in the financial statements, the financial statement items for any comparative periods should be included in the financial statements as if the Reorganisation had taken place from the beginning of the earliest period presented.

**2. Segment reporting**

***Geographical segments***

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

*Revenue from external customers*

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong and Macao | **84,396** | 91,366 |
| Mainland China | **291,164** | 38,902 |
| Other parts of Asia | **27,576** | 34,728 |
| Americas | **76,709** | 73,266 |
| Europe | **103,209** | 91,162 |
| Africa | **13,685** | 10,056 |
| | **596,739** | 339,480 |

*Segment assets*

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong and Macao | **120,150** | 31,072 |
| Mainland China | **100,490** | 79,070 |
| | **220,640** | 110,142 |

## 3. Turnover

The principal activities of the Group are design, manufacturing, retailing and distribution and CDM of fashion accessories.

Turnover represents the sales value of goods supplied to customers after deducting sales tax, value added tax, discounts and returns.

Turnover is represented by sales generated by each of the following categories:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Retailing and distribution | | |
| — Hong Kong and Macao | **28,190** | 44,035 |
| — PRC | **269,273** | 34,631 |
| CDM | **299,276** | 260,814 |
| | **596,739** | 339,480 |

## 4. Other revenue

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income | **230** | 273 |
| Others | **16** | 273 |
| | **246** | 546 |

## 5. Other net loss

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net exchange loss | **(8,203)** | (1,253) |
| Reversal of provision for long service payments | **558** | — |
| Net (loss)/gain on disposal of property, plant and equipment | **(578)** | 90 |
| Others | **—** | 291 |
| | **(8,223)** | (872) |

## 6. Profit before taxation

***Profit before taxation is arrived at after charging:***

| | 2008 | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (a) Finance costs: | | |
| Interest on bank advances wholly repayable within five years | **1,764** | 1,398 |
| Interest on bank advances wholly repayable beyond five years | **2,182** | 1,343 |
| Finance charges on obligations under finance leases | **50** | 38 |
| | **3,996** | 2,779 |

| | 2008 | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (b) Staff costs: | | |
| Contributions to defined contribution retirement plans | **6,756** | 3,783 |
| Salaries, wages and other benefits | **117,486** | 64,982 |
| | **124,242** | 68,765 |

| | 2008 | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (c) Other items: | | |
| Depreciation | | |
| — assets held for use under finance leases | **303** | 303 |
| — other assets | **13,742** | 6,881 |
| Impairment loss on trade and other receivables | **1,021** | 210 |
| Auditors' remuneration | **2,744** | 787 |
| Advertising and promotion expenses | **12,280** | 16,597 |
| Operating lease charges in respect of properties: | | |
| — contingent rent | **36,341** | 8,638 |
| — minimum lease payments | **47,246** | 9,417 |
| Operating lease charges in respect of billboards | **6,010** | 1,600 |

## 7. Income tax in the combined income statement

***Taxation in the combined income statement represents:***

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Current tax — Hong Kong Profits Tax** | | |
| Provision for the year | **1,910** | 4,563 |
| Under-provision in respect of prior year | **35** | — |
| | | |
| **Current tax — PRC income tax** | | |
| Provision for the year | **17,114** | 4,240 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(2,642)** | (815) |
| | **16,417** | 7,988 |

Notes:

(i) Pursuant to the income tax rules and regulations of Bermuda and the BVI, the Group is not subject to income tax in Bermuda and the BVI.

(ii) The provision for Hong Kong Profits Tax for the year is calculated at 17.5% of the estimated assessable profits for the respective year.

(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 year as the company sustained tax losses.

(v) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax as follows:

— Artist Empire (Hai Feng) Jewellery Mfy. Limited ("AE Haifeng") is a foreign invested enterprise established in Haifeng, the PRC and eligible to a preferential tax rate of 24%. AE Haifeng is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for two years starting from its first profit-making year in 2005, followed by a 50% reduction in the PRC enterprise income tax for three years through 2009.

— Shenzhen Artini Fashion Accessories Co., Ltd. ("Shenzhen Artini") and Bo-Wealth (Shenzhen) Trading Co. Ltd. ("Bo-Wealth") are foreign invested enterprises located in Shenzhen, the PRC and are subject to a preferential tax rate of 15% before 31 December 2007. Bo-Wealth has not generated assessable profit since its operations commenced in 2006.

(vi) On 16 March 2007, the Fifth Plenary Session of the Tenth NPC passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. The applicable tax rate for the Group's PRC subsidiaries is expected to gradually increase to the standard rate of 25%. Production foreign invested enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption or reduction in income tax rate during the five-year transition period. State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which set out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from PRC enterprise income tax, will continue to enjoy the preferential income tax rate up to the end of the above mentioned tax holidays, after which the 25% standard rate applies. The PRC subsidiaries of the Group that enjoyed the preferential rate of 15% prior to 1 January 2008 will be subject to the rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and finally be subject to the tax rate of 25% in 2012.

Further under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No. 1, pursuant to which dividend distributions out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax.

(vii) On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced the Annual Budget which proposes a cut in Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008–09 and a one-off reduction of 75% of the tax payable for 2007–08 assessment subject to a ceiling of HK$25,000. The changes to the profits tax legislation were substantively enacted on 27 February 2008. In accordance with the Group's accounting policy, the financial implications of these changes have been made to the combined financial statements.

## 8. Dividends

***Dividends payable to equity shareholders of the Company attributable to the year:***

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend declared and paid during the year | **69,000** | 16,000 |
| Special dividend proposed after the balance sheet date | **40,000** | — |

Dividends presented during the year represent dividends declared by Artist Empire Gifts & Premium Mfy. Limited, Gentleman Investments Limited, Artist Empire Jewellery Enterprise Company Limited, TCK Company Limited and Arts Empire Macao Commercial Offshore Limited, to their then shareholders before they became subsidiaries of the Company pursuant to the Reorganisation (note 1(b)). All dividends have been fully settled before listing of the Company.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

The Directors proposed the payment of a special dividend of HK$0.04 per share after the balance sheet date, which has not been recognised as a liability at the balance sheet date.

## 9. Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the year and the 750,000,000 shares in issue and issuable, comprising 200,000,000 shares in issue at 2 May 2008 and 550,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the prospectus dated 2 May 2008 issued by the Company as if the shares were outstanding throughout both 2007 and 2008.

There were no dilutive potential ordinary shares during the year.

## 10. Trade and other receivables

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade debtors | **67,985** | 31,187 |
| Less: Allowance for doubtful debts | **(591)** | (1,063) |
| | **67,394** | 30,124 |
| Deposits, prepayments and other receivables | **30,378** | 14,939 |
| Amounts due from related companies | **155** | 155 |
| Amounts due from directors | **55,373** | 70,506 |
| | **153,300** | 115,724 |

All of the trade and other receivables including amounts due from related companies are expected to be recovered within one year.

Amounts due from related companies as at 31 March 2007 are unsecured, interest-free and repayable on demand. Amounts due from related companies as at 31 March 2008 are unsecured and interest-free. The balances have been subsequently settled.

**(a)** ***Ageing analysis***

Included in trade and other receivables of the Group are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **65,552** | 21,001 |
| Over 3 months but less than 6 months | **1,842** | 7,259 |
| Over 6 months but less than 1 year | **—** | 1,841 |
| Over 1 year | **—** | 23 |
| | **67,394** | 30,124 |

**(b)** ***Impairment of trade debtors***

Impairment losses in respect of trade debtors are recorded using an allowance 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.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance brought forward | **1,063** | 853 |
| Impairment loss recognised | **1,021** | 210 |
| Uncollectible amounts written off | **(1,493)** | — |
| Balance carried forward | **591** | 1,063 |

At 31 March 2008, the Group fully provided specific allowances for doubtful debts for trade debtors which were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the prospect of recovery of the receivables was remote. The Group does not hold any collateral over these balances.

**(c)** ***The ageing analysis of trade debtors that are past due as at the balance sheet date but not impaired are as follows:***

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month past due | **6,612** | 6,366 |
| 1 to 3 months past due | **9,047** | 932 |
| 3 to 6 months past due | **—** | 1,840 |
| 6 to 12 months past due | **—** | 23 |
| | **15,659** | 9,161 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on the past experience, management believes that no impairment allowance is necessary in respect of these balances which are considered fully recoverable. The Group does not hold any collateral over these balances.

**11. Trade and other payables**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade creditors | **7,069** | 8,755 |
| Bills payable | **6,486** | 1,042 |
| Receipts in advance | **10,542** | 7,692 |
| VAT payable | **5,678** | 3,299 |
| Accrued charges and other payables | **25,473** | 20,815 |
| Amounts due to related companies | **8,244** | 8,299 |
| Amounts due to directors | **—** | 2,301 |
| | **63,492** | 52,203 |

All of the trade and other payables (including amounts due to related companies) are expected to be settled within one year.

Amounts due to related companies are unsecured, interest free and repayable on demand. The outstanding balances of amounts due to related companies and amounts due to directors have been subsequently settled.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Due within 3 months or on demand | **13,269** | 9,586 |
| Due after 3 months but within 6 months | **—** | 211 |
| Due after 6 months but within 1 year | **286** | — |
| | **13,555** | 9,797 |

# MANAGEMENT DISCUSSION ANALYSIS

## Analysis of operating result

### Turnover

The Group's turnover increased by approximately 75.8% from approximately HK$339.5 million for the year ended 31 March 2007 to approximately HK$596.7 million for the year ended 31 March 2008. The increase in turnover was mainly due to the rapid expansion of the retail network in the PRC and the significant increase of retail sale during the year.

### Cost of sales

Our cost of sales increased by approximately 49.1% from approximately HK$147.8 million for the year ended 31 March 2007 to approximately HK$220.3 million for the year ended 31 March 2008.

**Gross profit and gross profit margin**

Due to the rapid expansion of the retail network of our Group, our gross profit increased by approximately 96.4% from approximately HK$191.7 million for the year ended 31 March 2007 to approximately HK$376.4 million for the year ended 31 March 2008, and our gross profit margin increased from approximately 56.5% to approximately 63.1% during the two years ended 31 March 2007 and 2008.

The following table sets forth the gross profit by business segment of our Group:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Retail | **257,291** | 57,831 |
| CDM | **119,135** | 133,865 |
| | **376,426** | 191,696 |

**Gross profit margin from retail**

Gross profit margin from retail segment increased from approximately 73.5% for the year ended 31 March 2007 to 86.5% for the year ended 31 March 2008. The increase is mainly due to the increase in proportion of the Group's retail business in the PRC, which are earning a higher gross profit margin.

**Gross profit margin from CDM**

Gross profit margin from CDM decreased from approximately 51.3% for the year ended 31 March 2007 to 39.8% for the year ended 31 March 2008. The decrease is mainly attributed to: (i) the production development costs incurred in the Olympic project; (ii) the increase in production and material costs and appreciation of RMB. All these factors have led to higher overall production costs and lower gross profit.

**Selling and distribution costs**

Selling and distribution costs of the Group, which mainly comprised advertising and promotion expenses, operating lease charges for retail stores and concessions, freight charges, turnover rent as well as staff costs for sales and marketing personnel, amounted to approximately HK$195.9 million, representing 32.8% of the Group's total turnover, comparing to 22.2% last year. The increase is mainly related to the increase in the number of retail stores and concessions.

**Administrative expenses**

The Group's administrative expenses primarily comprised fixed assets depreciation, staff costs for directors and executives, operating lease charges and various operating costs of supporting departments. The expenses amounted to HK$40.7 million for the year ended 31 March 2008, representing 6.8% of the Group's total turnover, comparing to 9.2% of previous year. The decrease was mainly due to the effect of economies of scale.

### Results from operating activities

Operating profit of the Group increased by 54.8% to HK$130.4 million for the period under review. The operating profit margin was 21.9%.

### Finance costs

Finance costs increased by approximately 43.8% from approximately HK$2.8 million for the year ended 31 March 2007 to approximately HK$4.0 million for the year ended 31 March 2008. The increase in finance costs was mainly due to the increase in interest expense on bank borrowings to finance working capital and capital expenditures for the expansion of our business during the year.

### Income tax expense

Income tax increased from HK$8.0 million for the year ended 31 March 2007 to HK$16.4 million for the year ended 31 March 2008, representing an increase of HK$8.4 million. The effective tax rate was 9.8% in 2007 comparing to 13.0% in 2008, the increase of which was mainly due to the increased profit contribution from the PRC subsidiaries of the Group which are subject to a higher tax rate than the Group's effective tax rate.

### Profit for the year and the net profit margin

As a result of the foregoing factors, the profit for the year increased significantly by approximately 49.7% from HK$73.5 million for the year ended 31 March 2007 to approximately HK$110.0 million for the year ended 31 March 2008. The decrease in the net profit margin from approximately 21.6% to 18.4% during these two years of review was mainly attributable to certain set-up cost for our retail business incurred during the year.

## Analysis of financial position

### Current and quick ratios

The following table sets out the summary of our Group's current and quick ratios as at 31 March 2007 and 2008:

| | **As at 31 March 2008** | As at 31 March 2007 |
|---|---|---|
| Current Ratio *(Note)* | **1.4** | 1.8 |
| Quick Ratio *(Note)* | **1.1** | 1.5 |

*Note*: Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year.

Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the year.

As at 31 March 2008, the current ratio and the quick ratio of our Group had decreased slightly to 1.4 and 1.1 respectively, which were mainly due to the increase in bank loans and overdraft from HK$59.4 million in 2007 to HK$140.6 million in 2008 for the increase in operating costs to cope with the business expansion.

**Gearing Ratio**

The following table sets out the summary of our Group's gearing ratio as at 31 March 2007 and 2008:

| | **As at 31 March 2008** | As at 31 March 2007 |
|---|---|---|
| Gearing Ratio (*Note*) | **37.5%** | 25.9% |

*Note*: Gearing ratio is calculated based on the loans and borrowings divided by total assets and multiplied by 100%.

As at 31 March 2008, our gearing ratio was increased to approximately 37.5% which was mainly due to the increase in bank loans and overdraft from HK$59.4 million in 2007 to HK$140.6 million in 2008 for the increase in operating costs to cope with the business expansion.

**Inventory Turnover Days**

The following table sets out the summary of the Group's inventory turnover days during the two years ended 31 March 2007 and 2008:

| | **Year ended 31 March 2008** | Year ended 31 March 2007 |
|---|---|---|
| Inventory Turnover Days (*Note*) | **70** | 55 |

*Note*: Inventory turnover days is calculated based on the average of the beginning and ending inventory balance for the year divided by the total cost of sales during the year multiplied by 365 days.

The increase in inventory turnover days from approximately 55 days in 2007 to approximately 70 days in 2008 was due to the increase in inventory level of the retail segment as at 31 March 2008 which is in line with the increase in our retail networks.

**Debtors' turnover days**

The following table sets out the summary of our Group's debtors' turnover days during the two years ended 31 March 2007 and 2008:

| | **Year ended 31 March 2008** | Year ended 31 March 2007 |
|---|---|---|
| Debtors' Turnover Days (*Note*) | **30** | 24 |

*Note*: Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables for the year divided by turnover during the year multiplied by 365 days.

Trade receivables balance as at the respective year end during the two years ended 31 March 2007 and 2008 represents the outstanding amounts receivable by us from our customers which have been granted with credit periods. We evaluate the recoverability of trade receivables from customers individually on a monthly basis and review the overdue balances from time to time. We also monitor the aging status of our trade receivables and payment history, subsequent settlement, on-going business relationships and financial condition of our customers.

Debtors' turnover days increased from approximately 24 days for the year ended 31 March 2007 to approximately 30 days for the year ended 31 March 2008. The increase was mainly due to the increase in receivables from department stores in respect of concession sales, which are in line with the increase in concession sales in 2008. Department stores usually return sales proceeds to us within 60 days which resulted in the increase in the Group's debtors' turnover days.

**Creditors' turnover days**

The following table sets out the summary of our Group's creditors' turnover days during the two years ended 31 March 2007 and 31 March 2008:

| | **Year ended 31 March 2008** | Year ended 31 March 2007 |
|---|---|---|
| Creditors' Turnover Days (*Note*) | **19** | 19 |

*Note*: Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year divided by total cost of sales during the year multiplied by 365 days.

Trade payables balance as at the respective year end during the two years ended 31 March 2007 and 2008 represented the outstanding amounts payable by us to our suppliers of raw materials. The credit periods granted by various suppliers generally range from 30 days to 60 days during the two years ended 31 March 2007 and 2008.

Our creditors' turnover days were relatively stable at 19 days during the two years ended 31 March 2007 and 2008. The creditors' turnover days were in line with the credit terms of 30 days to 60 days granted by our Group's suppliers to our Group.

## LIQUIDITY, FINANCIAL RESOURCES

As at 31 March 2008, the Group's outstanding borrowings amount to HK$140.6 million comprising interest-bearing bank borrowings repayable (i) within one year of approximately HK$114.2 million and (ii) repayable over one year of approximately HK$26.4 million. As at 31 March 2008, the Group's banking facilities were supported by (i) legal charges over the Group's interests in leasehold land held for own use under operating leases and buildings, which are all situated in Hong Kong, with carrying value of approximately HK$13.3 million, (ii) mortgages over a director of the Company, Mr. Tse Chiu Kwan's personal quarters, (iii) cross corporate guarantees given by the Group and Gain Win Holdings Limited, a company owned by the directors, Mr. Tse Chiu Kwan and Ms. Yip Ying Kam; and (iv) personal guarantees given by the directors of the Company, Mr. Tse Chiu Kwan and Ms. Yip Ying Kam.

**Cash flow**

The table below summarises the Group's cash flows during the two years ended 31 March 2007 and 31 March 2008:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net cash generated from operating activities | **59,129** | 59,699 |
| Net cash used in investing activities | **(98,676)** | (83,050) |
| Net cash generated from financing activities | **67,709** | 14,558 |

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following the initial public offering in May 2008, we expect to finance our capital expenditure and operating requirements through internally generated cash flows, net proceeds from the issuance of new shares and our cash and cash equivalents. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

Capital expenditures

Capital expenditure was used for acquisition of property, plant and equipment. For the year ended 31 March 2008, the Group's capital expenditure were approximately HK$45.0 million. The significant capital expenditure during the year ended 31 March 2008 was mainly for the renovation of retail stores and acquisition of plant equipment and machineries.

Loans and borrowings

As at 31 March 2008, the Group's loans and borrowings amounted to HK$140.6 million. The Group's loans and borrowings primarily comprise of (1) short-term loans and borrowings of HK$108.5 million provided by local banks; and (2) long-term loans and borrowings of HK$32.1 million provided by local banks.

## SUBSEQUENT EVENTS

Save as disclosed in this announcement, the Company completed its global offering and its shares were listed on the Stock Exchange.

The Company also adopted its Pre-IPO Share Option Scheme and Share Option Scheme on 23 April 2008. 10,000,000 share options have been granted to certain Directors and employees of the Company under Pre-IPO Share Option Scheme and no option was exercised up to the date of this announcement.

## PROSPECTS

Looking ahead, the Group believes that there are still boundless opportunities in the fashion accessories industry. To keep abreast with the market trend, the Group will bring forth the new from the old and use different strategies to meet the market needs and grasp opportunities in order to further expand the Group's business.

The Group aims to become one of the largest multi-brand operators of fashion accessories in the PRC.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares on the Stock Exchange in May 2008, after deduction of related issuance expenses, amounted to approximately HK$483.3 million. Any net proceeds that were not applied immediately have been temporarily placed in short-term deposits with banks in Hong Kong as at the date of this announcement. The Directors intend to apply these net proceeds in the manner as set out in the prospectus of the Company dated 2 May 2008.

## DIVIDENDS

During the year under review, the companies comprising the Group declared and paid an interim dividend of HK$69 million to their then shareholders before listing of the Company. The Directors do not recommend the payment of a final dividend of the Company for the year ended 31 March 2008.

A special dividend of HK$0.04 per share is proposed by the Directors to be paid to the shareholders whose names will be appeared on the register of members on 28 August 2008, totalling HK$40 million. The proposed special dividend, if approved by shareholders at the annual general meeting to be held on 28 August 2008, will be paid on 9 September 2008 to shareholders. The register of members of the Company will be closed from 26 August 2008 to 28 August 2008, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch register in Hong Kong, Computershare Hong Kong Investors Services Limited, located at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 August 2008 for registration.

## EMPLOYEES AND EMOLUMENTS

As at 31 March 2008, the Group employed a total of 3,435 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 31 March 2008, the Group's total expenses on the remuneration of employees was HK$124.3 million, representing 20.8% of the turnover of the Group. The Group's emolument policies are formulated on the performance of individual employees, which will be reviewed annually. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

## CORPORATE GOVERNANCE

Since the listing of the shares of the Company on the Stock Exchange on 16 May 2008, all the code provisions set out in the Code were met by the Company except the deviations summarized as follows:

A.1.1 as the Company was listed on 16 May 2008, only two board meetings were held for the financial year ended 31 March 2008 which deviated from the requirement of four times a year

C3.3(e)(i) as the Company was listed on 16 May 2008, no audit committee meeting was held as at 31 March 2008. The first audit committee meeting was held on 14 May 2008. From 2008 onward, the audit committee will have a meeting at least once a year

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code since the Company's listing on 16 May 2008.

## REVIEW BY THE AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has an audit committee which is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control measures.

The audit committee of the Company has met with the external auditors of the Company, KPMG, to review the accounting principles and practices adopted by the Group and the combined results of the Group for the year ended 31 March 2008. The audit committee is composed of three independent non-executive directors of the Company, Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence and Mr. Fan William Chung Yue. Mr. Lau serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As at 31 March 2008, the shares were not listed on the Stock Exchange. Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 March 2008.

## PUBLICATION OF 2008 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.artini-china.com), and the 2008 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

On behalf of the Board of
**Artini China Co. Ltd.**
**Tse Chiu Kwan**
*Chairman*

Hong Kong, 21 July 2008

*As at the date of this announcement, the Board comprises 4 executive Directors, namely Mr. Tse Chiu Kwan, Ms. Yip Ying Kam, Mr. Xie Hai Hui and Ms. Ho Pui Yin, Jenny; and 3 independent non-executive Directors, namely Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence and Mr. Fan William Chung Yue.*