ARTINI

ARTINI CHINA CO. LTD.

雅天妮中國有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 789)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The board (the "Board") of directors (the "Directors") of Artini China Co. Ltd. (the "Company") is pleased to present the first unaudited consolidated interim financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2008 following its successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") together with the comparative figures for the previous financial period:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008 – unaudited
(Expressed in Hong Kong dollars)

		For the six months ended 30 September	
	Note	**2008 $'000**	2007 $'000
Turnover	3	**313,766**	263,693
Cost of sales		**(153,609)**	(107,990)
Gross profit		**160,157**	155,703
Other revenue	4	**4,070**	151
Other net expense	5	**(63)**	(2,601)
Selling and distribution costs		**(142,151)**	(82,179)
Administrative expenses		**(19,957)**	(17,408)
Other operating expenses		**(12,293)**	(266)
(Loss)/Profit from operations		**(10,237)**	53,400
Finance costs	6(a)	**(911)**	(1,748)
(Loss)/Profit before taxation	6	**(11,148)**	51,652
Income tax	7	**(8,294)**	(6,072)
(Loss)/Profit for the period		**(19,442)**	45,580
Dividends	8	**40,000**	69,000
(Loss)/Earnings per share	9		
Basic		**(0.021)**	0.061
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

	Note	**As at 30 September 2008 $'000**	As at 31 March 2008 $'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**84,473**	68,452
– Interests in leasehold land held for own use under operating leases		**21,674**	21,745
Intangible assets		**714**	593
Rental deposits		**12,865**	10,130
Deferred tax assets		**7,294**	4,294
		127,020	105,214
Current assets			
Inventories		**89,424**	56,491
Trade and other receivables	10	**120,383**	153,300
Tax recoverable		**–**	721
Cash and cash equivalents		**314,316**	59,356
		524,123	269,868
Current liabilities			
Trade and other payables	11	**60,153**	63,492
Bank loans and overdrafts		**2,354**	114,142
Obligations under finance leases		**357**	345
Current taxation		**7,955**	15,118
		70,819	193,097
Net current assets		**453,304**	76,771
Total assets less current liabilities		**580,324**	181,985

	Note	As at 30 September 2008 $'000	As at 31 March 2008 $'000
Non-current liabilities			
Bank loans		**171**	26,427
Obligations under finance leases		**–**	181
Deferred tax liabilities		**1,015**	1,015
		1,186	27,623
NET ASSETS		**579,138**	154,362
CAPITAL AND RESERVES			
Share capital		**100,000**	385
Reserves		**479,138**	153,977
TOTAL EQUITY		**579,138**	154,362

NOTES

(Expressed in Hong Kong dollars)

1 Basis of presentation and preparation

(a) Basis of presentation

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 Company and its subsidiaries (the "Group") are principally engaged in the design, manufacturing, retailing and distribution and concurrent design manufacturing ("CDM") of fashion accessories.

(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 complete 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 (the "Prospectus") 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	Percentage of equity attributable to the Company 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 ("Artini Sales")	Hong Kong 9 June 1992	–	100	HK$10,000	Trading of fashion accessories

1 **Basis of presentation and preparation** (continued)

(b) ***Reorganisation*** (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/ registered capital	Principal activities
		Direct	Indirect		
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 (“AE Jewellery Enterprise”)	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)	People’s Republic of China (“PRC”) 28 March 2002	–	100	HK$97,600,000	Manufacturing and sale of fashion accessories
Artist Star International Development Limited (“Artist Star”)	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

1 Basis of presentation and preparation (continued)

(b) Reorganisation (continued)

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
Arts Empire Macao Commercial Offshore Limited ("Arts Empire")	Macao 14 January 2005	–	100	MOP200,000	Trading of fashion accessories and related raw materials
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 Trading 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

1 **Basis of presentation and preparation** (continued)

(b) ***Reorganisation*** (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/ registered capital	Principal activities
		Direct	Indirect		
Riccardo International Trading Limited	BVI 7 December 2004	–	100	US$700	Investment holding
Shenzhen Artini Fashion Accessories Co., Ltd. (note)	PRC 6 June 2006	–	100	HK$200,000,000	Retailing of fashion accessories
Shop Front Trading Limited ("Shop Front")	BVI 20 December 2000	–	100	US$100	Provision of product design services
TCK Company Limited ("TCK")	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.

However, since all entities which took part in the Reorganisation were under common control of a group of ultimate equity holders (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 consolidated 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 consolidated income statements of the Group for the six months ended 30 September 2007 and 2008 include the results of operations of the companies comprising the Group for the six months ended 30 September 2007 and 2008 (or where the companies were established/incorporated at a date later than 1 April 2007 for the periods from the date of establishment/incorporation to 30 September 2007 and 2008) as if the companies now comprising the Group had been in existence throughout the periods presented.

1 **Basis of presentation and preparation** (continued)

(b) ***Reorganisation*** (continued)

The consolidated balance sheet at 31 March 2008 is the combination of the balance sheets of the Company and the subsidiaries now comprising the Group at 31 March 2008. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

2 **Significant accounting policies**

(a) ***Basis of preparation***

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 22 December 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007/08 annual financial statements.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which term collectively includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations, that are effective for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's financial statements for the year ending 31 March 2009, on the basis of HKFRSs currently in issue. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in the interim financial report for the periods presented.

The HKFRSs that will be effective or are available for voluntary early adoption in the Group's financial statements for the year ending 31 March 2009 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of the interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of the interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

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 announcement 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 2007/2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

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

2 Significant accounting policies (continued)

(b) 2007/2008 statutory financial statements and combined financial statements

The 2007/2008 annual report of the Company included statutory financial statements of the Company and the combined financial statements of the Company and the subsidiaries now comprising the Group for the year ended 31 March 2008. The combined financial statements did not form part of the Company's statutory financial statements for the year ended 31 March 2008. The basis of presentation of the combined financial statements for the year ended 31 March 2008 is consistent with the basis of presentation for the interim financial report as set out in note 2(a) above.

The financial information relating to the financial year ended 31 March 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements and the combined financial statements for that financial year but is derived from those financial statements. Statutory annual financial statements for the year ended 31 March 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 July 2008.

3 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(i) Business segments

The Group comprises the following main business segments:

CDM	:	manufacturing depending on the customer's chosen level of participation in the design process, concurrently works with its customer in designing the products and produces the same according to the customer's desired final design.
Retailing and distribution	:	the manufacture and sale of own brand fashion accessories.

3 Segment reporting (continued)

(i) Business segments (continued)

	Six months ended 30 September 2008					
	Retailing and distribution					
	Mainland China $'000	Hong Kong and Macao $'000	Sub-total $'000	CDM sales $'000	Inter-segment elimination $'000	Consolidated $'000
Revenue from external customers	**150,214**	**13,493**	**163,707**	**150,059**	**–**	**313,766**
Inter-segment revenue	**–**	**–**	**–**	**20,206**	**(20,206)**	**–**
Total	**150,214**	**13,493**	**163,707**	**170,265**	**(20,206)**	**313,766**
Segment result	**18,042**	**(8,254)**	**9,788**	**7,677**	**–**	**17,465**
Unallocated operating income and expenses						**(27,702)**
Loss from operations						**(10,237)**
Finance costs						**(911)**
Income tax						**(8,294)**
Loss after taxation						**(19,442)**

3 **Segment reporting** (continued)

(i) ***Business segments*** (continued)

	Six months ended 30 September 2007					
	Retailing and distribution					
	Mainland China $'000	Hong Kong and Macao $'000	Sub-total $'000	CDM sales $'000	Inter-segment elimination $'000	Consolidated $'000
Revenue from external customers	101,834	13,989	115,823	147,870	–	263,693
Inter-segment revenue	–	–	–	15,842	(15,842)	–
Total	101,834	13,989	115,823	163,712	(15,842)	263,693
Segment result	35,047	(2,744)	32,303	38,505	–	70,808
Unallocated operating income and expenses						(17,408)
Profit from operations						53,400
Finance costs						(1,748)
Income tax						(6,072)
Profit after taxation						45,580

3 Segment reporting (continued)

(ii) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
Revenue from external customers		
Hong Kong and Macao	**35,366**	45,719
Mainland China	**182,016**	104,052
Other parts of Asia	**9,954**	15,095
Americas	**34,643**	41,426
Europe	**49,217**	52,666
Africa	**2,570**	4,735
	313,766	263,693

4 Other revenue

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
Interest income	**1,776**	70
Government grant	**2,281**	–
Others	**13**	81
	4,070	151

5 Other net expense

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
Net exchange loss	**(113)**	(2,402)
Net gain/(loss) on disposal of property, plant and equipment	**50**	(198)
Others	**–**	(1)
	(63)	(2,601)

6 Loss/(Profit) before taxation

Loss/(Profit) before taxation is arrived at after charging:

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**895**	974
Interest on bank advances wholly repayable beyond five years	**–**	746
Finance charges on obligations under finance leases	**16**	28
	911	1,748

6 **Loss/(Profit) before taxation** (continued)

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
(b) Other items:		
Depreciation		
– assets held for use under finance lease	**152**	152
– other assets	**10,151**	4,890
Impairment losses on trade and other receivables	**9,774**	266
Advertising and promotion expenses	**15,391**	10,120
Operating lease charges in respect of properties:		
– contingent rent	**22,756**	13,527
– minimum lease payments	**28,115**	14,767
Operating lease charges in respect of billboards	**5,068**	1,807

7 **Income tax**

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	**114**	301
Current tax – PRC income tax		
Provision for the period	**11,180**	6,239
Deferred tax		
Origination and reversal of temporary differences	**(3,000)**	(468)
	8,294	6,072

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 period is calculated at 16.5% of the estimated assessable profits for the six months ended 30 September 2008 (2007: 17.5%).

7 **Income tax** (continued)

Notes: (continued)

(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 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%. Haifeng Factory is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for two years starting from their 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%. Bo-Wealth has not generated assessable profit since its operations 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 on 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% of the investee's equity interest. On 22 February 2008, the Ministry of Finance and State Administration of Taxation 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 2008/2009 and a one off reduction of 75% of the tax payable for the 2007/2008 year of 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 interim financial report.

8 Dividends

Dividends payable to equity shareholders of the Company attributable to the period:

	For the six months ended 30 September	
	2008	2007
	$'000	$'000
Interim dividend declared and paid during the period	**–**	69,000
Special dividend declared during the period	**40,000**	–

During the six months ended 30 September 2007, the interim dividends presented during the period represent dividends declared by Artini Sales, Shop Front, AE Jewellery Enterprise, TCK and Arts Empire, to their then shareholders before they became subsidiaries of the Company pursuant to the Reorganisation.

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 Company paid a special dividend of $0.04 per share on 9 September 2008.

9 (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic earnings per share for the period ended 30 September 2008 is based on the loss attributable to equity shareholders of the Company of HK$19,442,000 (2007: profit of HK$45,580,000) and the weighted average number of ordinary shares in issue during the period ended 30 September 2008 of 935,792,350 (2007: 750,000,000 ordinary shares). The weighted average number of shares in issue during the periods ended 30 September 2007 and 2008 is calculated on the assumption that the 750,000,000 ordinary shares issued upon the Reorganisation were outstanding throughout the entire two periods.

Weighted average number of ordinary shares

	For the six months ended 30 September	
	2008	2007
	No. of shares	No. of shares
Shares issued upon Reorganisation	**750,000,000**	750,000,000
Effect of shares issued upon placing and public offering on 16 May 2008	**185,792,350**	–
Weighted average number of shares	**935,792,350**	750,000,000

(b) There were no dilutive potential ordinary shares during both the current and prior periods.

10 Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses) with the following ageing analysis as of the balance sheet date:

	At 30 September 2008 $'000	At 31 March 2008 $'000
Within 3 months	**53,176**	65,552
Over 3 months but less than 6 months	**13,627**	1,842
Over 6 months but less than 1 year	**7,962**	–
Over 1 year	**2,910**	–
Total debtors, net of impairment loss	**77,675**	67,394
Deposits, prepayments and other receivables	**42,708**	30,378
Amounts due from related parties	**–**	155
Amount due from a director	**–**	55,373
	120,383	153,300

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

Amounts due from related parties and directors as at 31 March 2008 were unsecured and interest-free.

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.

At 30 September 2008, the Group fully provided specific allowances for doubtful debts for trade debtors which 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.

11 **Trade and other payables**

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

	30 September 2008 $'000	31 March 2008 $'000
Due within 3 months or on demand	**9,809**	13,269
Due after 3 months but within 6 months	**16**	–
Due after 6 months but within 1 year	**–**	286
Due over 1 year	**289**	–
Trade creditors	**10,114**	13,555
Receipts in advance	**3,620**	10,542
VAT payable	**11,943**	5,678
Accrued charges and other payables	**34,232**	25,473
Amounts due to related parties	**244**	8,244
	60,153	63,492

All of the trade and other payables (including amounts due to related parties) are expected to be settled within one year. Receipts in advance are expected to be recognised as income within one year.

Amounts due to related parties are unsecured, interest free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the period under review, operating environment for retail companies in the PRC market deteriorated. Economic development turned from rapidly growing to over-heated, and inflation as well as operating costs continued to rise, exerting pressure on China enterprises. Another major incident in the period under review was the earthquake in Sichuan which caused numerous casualties. The natural disaster caused significant damages and impacted the domestic economy in general, weakening consumer sentiment in the PRC. Following it was the Beijing Olympic Games in August 2008. Consumers opted to stay home to witness the once-in-a-lifetime event and hence a substantial decrease in pedestrian throughput was seen in commercial properties during the period.

In addition, the recent global financial turmoil had a negative impact on not only the international market, but also on the Chinese economy and the consumer confidence in the PRC. The impact is particularly significant to the mid- to high-end segments. These factors affected the businesses of the Group, in particular the Group's growing retail business in the PRC.

Despite the above, the Directors are confident that with its vertically integrated business model, highly competitive products, strong brand equity and extensive experience in the international fashion accessories market, the Group will benefit from its market leading position in the fashion accessories market and continue to stay at the industry forefront to enhance the return to shareholders in the medium to long run. In the meantime, the Board is also reviewing the Group's strategies and operations with a view to improving its business performance in the current weak market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review

Retail Business

The Group currently owns two proprietary brands – "Artini" and "Q'ggle", which target at different groups of customers. "Sparks of Life" is the brand concept of "Artini" which embodies classic, elegant and the romantic European style and targets fashion conscious and tasteful customers; while "Trendy & Energetic, Let's Q'ggle!" is the brand concept of "Q'ggle", which targets cheerful, energetic, lively and trendy young customers.

As at 30 September 2008, there were 106 "Artini" stores and 75 "Q'ggle" stores in the PRC, Hong Kong and Macao (30 September 2007: 84 "Artini" stores and 24 "Q'ggle" stores). The turnover of retail business accounted for approximately 52.2% of the total turnover of the Group, representing an increase in turnover of approximately 41.3% when compared to the same period in 2007.

Concurrent Design Manufacture ("CDM") Business

The CDM business of the Group is to design and produce fashion accessories for international branded customers. Leveraging on the Group's experience gained in the industry and our international fashion sense, the Group is able to collaborate closely with our branded customers to develop and design products concurrently. We have a diversified portfolio of customers including (i) Victoria + Co., Ltd., which owns or carries licenses of brands such as Givenchy and Nine West; (ii) Lucas Design International Inc., which carries licenses of brands such as Playboy and Disney; (iii) Philippines Import/Export Ltd., which is a wholesaler of fashion jewelry in Brazil and Canada; and (iv) Connexions (Asia) Limited, an agent of a company which owns or carries licenses of various international brands of men's fashion jewelry, etc. Our CDM client base also extends to QVC Handel Gmbh, a TV shopping channel operator, and direct mailing customers.

In addition, the Group also successfully extended to gift and premium business in the PRC market. Our customers include Beijing Yuanlong Yato Culture Dissemination Co., Ltd and Guangzhou Asian Games Organizing Committee, etc. As at 30 September 2008, the turnover of CDM business increased from HK$147,870,000 in 2007 to HK$150,059,000 in 2008, representing an increase of approximately 1.5%. The turnover of CDM business accounted for approximately 47.8% of the total turnover of the Group in 2008, compared to that of 56.1% for the corresponding period of last year.

Retail Network

As a leading retail chain operator and manufacturer of fashion accessories, the Group actively seizes opportunities in developing its retail network in the high growth regions in the PRC. As at 30 September 2008, the Group's retail network had a total of 41 retail stores, 136 concessions and 4 authorized retail outlets, of which approximately 24% and 73% were in shopping malls and department stores respectively, with a total useable area of approximately 10,000 sq.m. covering Hong Kong, Macao and 37 cities throughout the PRC, including Shenzhen, Shanghai, Beijing and Guangzhou. The Group has developed a set of systematic and stringent site selection procedures which focus on sales locations with high pedestrian throughput and high average purchasing power of customers, thereby ensuring a steady flow of customers and enhancing brand awareness of our products. The Group monitored the operating costs of all newly established retail stores in order to have a better planning of future strategies. In view of the recent global financial turmoil, the Group is now evaluating the profitability of all retail points and will close down those which are potentially unprofitable.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Brand Building and Marketing

In the period under review, the Group continued to adopt effective marketing strategies. The Group enhanced its visibility and promoted its brands through fashion shows, sponsorships of entertainment events and TV drama series. In addition, the Group primarily focused on printed media and placed advertisements on TV and in leading fashion magazines. The Group also utilized outdoor billboards, internet and word of mouth to promote the Group's brands and products. Furthermore, the Group expressed its care and concern to the victims of the earthquake disaster in Sichuan by quickly organizing the "Expressing Care and Confronting the Disaster Hand-In-Hand" fund raising event in May 2008. Marketing and promotion expenses for the period under review was approximately HK$15,391,000.

The Group's effort on brand building and marketing was well recognized and was awarded "The Best Brand Enterprise Award 2008 (Greater China)" by Hong Kong Productivity Council.

The Group also established customer relation management ("CRM") program in order to enhance customer loyalty. As at 30 September 2008, the number of VIPs of Artini was 62,936, representing an increase of 40.7% from 44,717 as at 30 September 2007, while that of Q'ggle was 10,586, with a growth of 725.7% from 1,282 as at 30 September 2007. These loyal customers contributed significantly to the Group's revenue. Buying behaviors of VIPs were analyzed and the data were very useful in improving retails sales promotion and other promotional activities, as well as developing new products which catered to our customers' preferences.

Innovative Design and Development Capabilities

The Group successfully adapted to ever-changing market trends in the period under review. This was realized through the Group's design team, which are highly knowledgeable in the latest and forthcoming fashion trend in the market. The design team consists of innovative designers from the UK, Hong Kong and the PRC. Collectively, they bring international concepts and ideas to our products. Some of the key designers are from worldwide prestigious design schools, including Central Saint Martins College of Art and Design in London, Duncan of Jordanstone College of Art in Scotland, and Royal College of Art in London; and have won internationally recognized design awards. In addition, our designers coupled with our marketing team to participate in fashion accessories fairs, trade shows and exhibitions around the world to keep pace with the latest fashion trend.

Management and training

As the Group distributed its products through its extensive nationwide network, the Group implemented a stringent management and training system. Apart from conducting random inspections of retail outlets regularly, the Group provided training for its sales representatives working in all retail points, including retail stores, concessions and authorized retail outlets. Interpersonal skills and etiquette were taught to ensure all sales representatives were polite and welcoming to our customers. We believe that our customers will make continuous purchases at our retail points.

Financial Review

For the six months ended 30 September 2008, the Group recorded total turnover of approximately HK$313,766,000, representing a 19.0% increase when compared to the same period in 2007. The growth in turnover of the Group was primarily due to the expansion of the retail network in comparison with the same period in 2007 and also the establishment of CRM program of the Group. Turnover of the Group consists of retail and CDM businesses. During the period under review, turnover of retail and CDM business accounted for 52.2% and 47.8% of the total turnover of the Group respectively. The Group's turnover is mainly derived from the PRC, Europe and Hong Kong markets, which accounted for 58.0%, 15.7% and 11.3% of the total turnover respectively, compared to 39.5%, 20.0% and 17.3% for the same period last year.

During the period under review, the gross profit increased from HK$155,703,000 in 2007 to HK$160,157,000 in 2008, representing a slight increase of approximately 2.9%. The gross profit margin decreased from 59% in 2007 to 51% in 2008. Cost of sales increased from approximately HK$107,990,000 for the six months ended 30 September 2007 to HK$153,609,000 for the six months ended 30 September 2008, representing an increase of 42.2%. Such increase was attributable to the general increase in production overhead due to the continuous growth of inflation pressure in the PRC.

Selling and distribution costs for the six months ended 30 September 2008 increased by 73.0% to HK$142,151,000 when compared with HK$82,179,000 for the corresponding period in 2007. The increase in the amount of selling and distribution costs was mainly attributable to our continued advertising and promotion expenses in the PRC market due to our expansion of the retail network and the significant growth of retail business for the period under review. In addition, the increase in rent and wages in the PRC market, which accounted for approximately 65% of the total selling and distribution costs was also attributed to such increase in expenditure for the six months ended 30 September 2008.

Other operating expenses increased to HK$12,293,000 (2007: HK$266,000). The increase was primarily due to the impairment losses on trade and other receivables for the six months ended 30 September 2008 amounted to approximately HK$9,774,000 (2007: HK$266,000). The recent global financial turmoil affected the credibility of our wholesale customers caused the increase in total amount of bad debts. Under our prudent financial policy, it was applicable for impairment losses on trade and other receivables and the Group will write back the amount once debts are collected. The global financial turmoil also led to the increase in the total amount of sales return by our customers and hence the inventories of the Group.

Income tax increased from HK$6,072,000 for the six months ended 30 September 2007 to HK$8,294,000 for the six months ended 30 September 2008, representing an increase of HK$2,222,000. The increase was due to the withholding tax provided by the Group pursuant to the PRC tax regulation which came into effect from 1 January 2008.

Liquidity and Financial Resources

The Group's primary source of operating funds are cash flow from operating activities. As at 30 September 2008, the Group had cash and cash equivalents of approximately HK$314,316,000 and the current ratio was 7.4, reflecting its healthy financial condition, which paved the way for future development. As at 30 September 2008, the Group's gearing ratio was 0.39%, which is calculated by dividing total borrowings by total assets.

Financial Review (continued)

Liquidity and Financial Resources (continued)

During the six months ended 30 September 2008, net cash outflow from operating activities was approximately HK$106,687,000 (2007: net cash inflow from operating activities approximately HK$18,122,000). The net cash outflow from operating activities was mainly due to (i) increase in number of retail points; (ii) increase in the cost of sales, selling and distribution expenses; and (iii) increase in payment of income tax. On the other hand, the Group successfully raised HK$483.3 million (net proceeds) from listing during the period under review. The additional proceeds from initial public offering will continue to strengthen the financial position of the Group as a whole and lay the Group's foundation for further expansion in the PRC market.

Interim Dividend

The Board did not recommend any interim dividend for the six months ended 30 September 2008.

Foreign Exchange Exposure

The business of the Group mainly operates in the PRC, Europe and Hong Kong with most of its transaction settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Directors considered that the potential foreign exchange exposure of the Group is relatively limited. Besides, the Group has not used any forward contract or hedging product to hedge its interest rate or exchange rate risks. However, management will continue to monitor foreign currency risks and adopt prudent measures as appropriate since our financial policy prohibited the Group from participating in any speculative activities. During the period under review, the Group recorded exchange losses of approximately HK$113,000.

Significant Investments and Acquisitions

During the period under review, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group continued to seek opportunity to acquire and work with international customers in order to generate more returns to its shareholders.

Use of Proceeds from the Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 May 2008 with the net proceeds from the initial public offering of approximately HK$483.3 million. The applications of the proceeds from the initial public offering were as follows:

Use of proceeds	**Available to utilize** HK$ million	**Utilized (as at 30 September 2008)** HK$ million
Expansion of retail network	193.3	7.2
Expansion of production capacity	96.7	9.4
Marketing and promotion	72.5	8.2
Improvement of operating system	48.3	1.5
Development of information technology management system	24.2	1.0
General working capital	48.3	47.0

The Group has repaid its bank loans for a total amount of approximately HK$99.1 million. Any net proceeds that were not applied immediately have been temporarily placed in the short-term deposits with financial institutions.

Financial Review (continued)

Use of Proceeds from the Initial Public Offering (continued)

Pursuant to the prospectus of the Company dated 2 May 2008, the Company intended to use approximately 40% of the net listing proceeds for the expansion of our PRC retail network and open 118 new retail points in first-tier and second-tier cities in the PRC in 2009. During the six months ended 30 September 2008, the Company opened 43 new retail points. With the recent global financial turmoil, the continuous inflation pressure in the PRC and the decrease in consumer sentiment, the Company reviewed the plan and intended to open about 60 new retail points only during the financial year and will have a total of approximately 200 retail points by the year ending 31 March 2009. The Company will keep a closer eye on the Chinese economy and evaluate the profitability of retail stores in the PRC so as to improve the overall business performance of the Group. Save as disclosed above, the Directors intend to apply the remaining net proceeds in the manner as set out in the prospectus of the Company dated 2 May 2008.

Change of Use of Proceeds from the Initial Public Offering

Pursuant to the prospectus of the Company dated 2 May 2008, it was stated in the section headed "Future Plans and Prospects" and "Use of Proceeds" that 60% of the net proceeds from the initial public offering, approximately HK$290 millions is to be used for the expansion of retail network and production capacity of the existing plant (the "Expansion Purposes"). The Expansion Purposes include opening new retail points in the PRC and acquiring machinery and equipment as well as establishing new production lines or setting up a new plant.

Following the recent global financial turmoil, turnover of the retail business associated with the pedestrian throughput in retail stores decreased significantly, indicating the deterioration of operating environment for retail business. The Group has then decided to slow down its expansion of retail network.

In response to the current operating environment, the Group has revised its future business development strategies and decides to apply the un-utilized portion of the net proceeds from the initial public offering as follows:

Use of proceeds	Available to utilize as stated in the Prospectus	Utilized (as at 30 September 2008)	To be utilized for the purpose as stated in the Prospectus	To be utilized under revised business plan
	HK$ million	HK$ million	HK$ million	HK$ million
Expansion of retail network	193.3	7.2	186.1	127.1
Expansion of production capacity	96.7	9.4	87.3	65.0
Marketing and promotion	72.5	8.2	64.3	51.4
Improvement of operating system	48.3	1.5	46.8	15.0
Development of information technology management system	24.2	1.0	23.2	8.0
General working capital	48.3	47.0	1.3	43.4
Repayment of bank loan	–	99.1	–	–
Total	483.3	173.4	309.9	309.9

Financial Review (continued)

Capital Commitments

The Group did not have any material capital commitments during the period under review.

Contingent Liabilities

At the balance sheet date, certain of the group companies and Gain Win Holdings Limited ("Gain Win") are entities covered by a cross guarantee arrangement in respect of certain banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, Gain Win is the mortgagor and the group companies that are parties to the guarantee are borrowers under the arrangement. Gain Win and the group companies that are parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee. The cross guarantee arrangement has been released prior to the listing of the Company's shares in the Stock Exchange and substituted by the unlimited corporate guarantee from the Company.

The Directors do not consider it probable that a claim will be made against the Group under the guarantee as Gain Win is not a borrower and is not entitled to utilise the banking facilities.

Impairment Losses on Trade and Other Receivables

For the six months ended 30 September 2008, the impairment losses on trade and other receivables accounted for approximately of HK$9,774,000.

Legal Proceedings and Potential Litigation

During the six months ended 30 September 2008, the Group was not involved in any litigation that could have a material adverse effect on its financial condition and results of operations.

Human Resources

As at 30 September 2008, the Group had 4,078 employees. To enhance the expertise, product knowledge, marketing skills and the overall operational management skills of its employees, the Group organizes regular training and development courses for its employees, providing them with a competitive remuneration package, including salary, allowance, insurance and commission/bonus. In addition, share options are granted to selected employees based on their individual performance.

Purchase, Sale or Redemption of the Company's Listed Securities

The shares of the Company were listed on the Stock Exchange on 16 May 2008. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

Investor Relations

The Group strongly believes that investor relations are important to a listed company. Maintaining sound relationships with investors and keeping them abreast of the latest corporate information and business development in a timely manner enhance the transparency and corporate governance of the Group, thus strengthen the Group's corporate position. During the period under review, the investor relations representatives actively participated in various investor-related activities.

Prospects

The Group will dedicate to consolidate its position as the leading supplier of fashion accessories in the PRC and continue to expand its business in the PRC market. With the recent economic downturn, the Group will continue to adopt prudent measures to monitor its financial resources. On the other hand, the Group will take advantage of business opportunities with a view to improving its business performance in the current poor market conditions.

Future business strategy

Retail Business

In view of the rapidly changing business environment, the Group will adopt a stringent budget control policy, and on the other hand, introduce new business strategy to expand its retail network. The Group will further expand our retail network through distributors in the PRC market. We will also seek co-operation with renowned corporations to form strategic alliances. The Group has also commenced its new business strategy to sell products through internet which can increase the sales of its products with lower operating costs. The Directors believe that the adoption of new business strategies can reduce operating costs significantly, especially given the increasing rent in the PRC market, and hence increase the overall profitability of the Group. In addition, the launch of flagship stores is in progress in order to improve the Group's brand image in the PRC market.

Subsequent to the balance sheet date, the Group has entered into an agreement with a third party to become an exclusive distributor of NBA timepieces products under certain trademarks in Mainland China.

With the recent global financial turmoil, the continuous inflation pressure in the PRC and the decrease in consumer sentiment, the Group will prudently expand its retail network to approximately 200 retail points for the year ending 31 March 2009.

CDM Business

Apart from the retail business, the Group will seek new global CDM customers especially those from the developing countries such as China and Russia. The Group will also look for international renowned brands to acquire licenses. In addition, the Group will explore more market opportunities by co-operation with large corporations to design and produce souvenirs for their existing and potential customers. The Group will further enhance its product offerings through developing its new gift & premium items business.

Cost control and internal management

To reduce expenditure of the Group and effectively utilize the company resources, the Group is now evaluating the profitability of all retail points in the PRC market and will close down those which are potentially unprofitable. The Directors are also aware that marketing and promotion expenses of the Group increased significantly for the period under review and has now adopted a stringent budgetary control for the forthcoming promotion expenses. In the meantime, the Directors intend to streamline the corporate structure to reduce unnecessary office expenditures. Management will consider downsizing the workforce to improve business performance and profitability of the Group.

Despite the current poor market conditions, the Directors still believe that there are enormous growth potentials in the fashion accessories market in the PRC. The Company will equip itself to face future challenges and capture business opportunities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practice

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of shareholders and devote considerable effort to identifying and formalizing best practice.

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules. The Company has complied with all the provisions in the CG Code during the period from 16 May 2008 (being the first date of listing) to 30 September 2008.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by 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 and its code of conduct regarding directors' securities transactions since the Company's listing on 16 May 2008.

Audit Committee

The audit committee of the Company ("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 independent non-executive Directors, namely Mr. Lau Fai, Lawrenece (Chairman), Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue, 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 held meetings with the Company's auditors, KPMG, to discuss the auditing, internal controls and financial reporting matters of the Company. The Audit Committee has reviewed the unaudited interim financial information and interim report for the six months ended 30 September 2008.

Publication of interim results announcement and interim report

The announcement of unaudited interim results for the six months ended 30 September 2008 is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the website of the Company at www.artini-china.com.

The 2008 interim report of the Company will be dispatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
Artini China Co. Ltd.
Tse Chiu Kwan
Chairman

Hong Kong, 22 December 2008

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