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 2009

The board (the "Board") of directors (the "Directors") of Artini China Co. Ltd. (the "Company") hereby presents the unaudited consolidated interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2009. The interim financial statements have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2009 – unaudited
(Expressed in Hong Kong dollars)

		For the six months ended 30 September	
		2009	2008
	Note	**HK$'000**	HK$'000
Turnover	*3*	**182,255**	313,766
Cost of sales		**(84,080)**	(153,609)
Gross profit		**98,175**	160,157
Other revenue	*4*	**1,266**	4,070
Other net gains/(losses)	*5*	**1,492**	(63)
Selling and distribution costs		**(115,921)**	(142,151)
Administrative expenses		**(13,586)**	(19,957)
Other operating expenses		**(544)**	(12,293)
Loss from operations		**(29,118)**	(10,237)
Finance costs	*6(a)*	**(6)**	(911)
Loss before taxation	*6*	**(29,124)**	(11,148)
Income tax	*7*	**(1,952)**	(8,294)
Loss for the period		**(31,076)**	(19,442)
Loss per share (HK$)	*9*		
Basic and diluted		**(0.031)**	(0.021)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2009 – unaudited
(Expressed in Hong Kong dollars)

		For the six months ended 30 September	
		2009	2008
	Note	**HK$'000**	HK$'000
Loss for the period		**(31,076)**	(19,442)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of overseas subsidiaries		**–**	(186)
Total comprehensive income for the period		**(31,076)**	(19,628)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2009 – unaudited

(Expressed in Hong Kong dollars)

	Note	**As at 30 September 2009 HK$'000**	As at 31 March 2009 HK$'000
Non-current assets			
Fixed assets			
– Investment property		**3,683**	3,766
– Property, plant and equipment		**65,216**	66,803
– Interests in leasehold land held for own use under operating leases		**20,521**	20,962
Intangible assets		**5,470**	6,311
Rental deposits		**15,101**	13,095
Deferred tax assets		**10,146**	10,146
		120,137	121,083
Current assets			
Trading securities		**21,731**	–
Inventories		**65,946**	56,327
Trade and other receivables	*10*	**84,136**	57,956
Current tax recoverable		**–**	1,477
Cash and cash equivalents		**195,925**	277,897
		367,738	393,657
Current liabilities			
Trade and other payables	*11*	**49,685**	49,501
Bank loans – secured		**171**	420
Obligations under finance leases		**–**	181
Current tax payable		**948**	1,083
		50,804	51,185
Net current assets		**316,934**	342,472
Total assets less current liabilities		**437,071**	463,555

	Note	As at 30 September 2009 HK$'000	As at 31 March 2009 HK$'000
Non-current liabilities			
Deferred tax liabilities		**2,030**	2,030
NET ASSETS		**435,041**	461,525
CAPITAL AND RESERVES			
Share capital		**99,734**	99,224
Reserves		**335,307**	362,301
TOTAL EQUITY		**435,041**	461,525

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This 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 Standards ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 11 December 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008/09 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009/10 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the 2008/2009 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 HKFRS.

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

(b) 2008/09 statutory financial statements and financial statements

The financial information relating to the financial year ended 31 March 2009 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2009 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 July 2009.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the group's financial statements:

- HKAS 1 (Revised), *Presentation of financial statements*
- HKFRS 8, *Operating segments*
- Improvements to HKFRSs (2008)
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The adoption of the new HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

2 CHANGES IN ACCOUNTING POLICIES (continued)

- HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as single line. In addition, the statement of comprehensive income presents all items of recognised income and expenses, either in one single statement or in two linked statements. The Group has elected to present two statements.

- HKFRS 8 replaces HKAS 14 "Segment Reporting", and specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The segments identified in accordance with HKFRS 8 do not differ materially from those previously disclosed under HKAS 14 and thus the adoption of HKFRS 8 has had no impact on the reported results or financial position of the Group.

3 SEGMENT REPORTING

Segment information has been prepared on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group comprises the following main business segments:

- Retailing and distribution: the manufacture and sale of own brand fashion accessories.

- 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.

The segment information for the six months ended 30 September 2009 and 2008 about these reportable segments is presented below:

	Six months ended 30 September 2009					
	Retailing and distribution					
	Mainland China HK$'000	Hong Kong and Macao HK$'000	Sub-total HK$'000	CDM HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	69,645	11,765	81,410	100,845	–	182,255
Inter-segment revenue	–	–	–	17,195	(17,195)	–
Reportable segment revenue	69,645	11,765	81,410	118,040	(17,195)	182,255
Reportable segment profit/(loss)	(30,569)	(5,530)	(36,099)	17,545	–	(18,554)
Unallocated expenses						(10,564)
Operating losses						(29,035)
Finance costs						(6)
Loss before income tax						(29,124)
Income tax						(1,952)
Loss for the period						(31,076)
Additions to non-current segment assets during the period	3,836	386	4,222	3,703	–	7,925

3 SEGMENT REPORTING (continued)

	Six months ended 30 September 2008					
	Retailing and distribution				Inter-	
	Mainland China HK$'000	Hong Kong and Macao HK$'000	Sub-total HK$'000	CDM HK$'000	segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	150,214	13,493	163,707	150,059	–	313,766
Inter-segment revenue	–	–	–	20,206	(20,206)	–
Reportable segment revenue	150,214	13,493	163,707	170,265	(20,206)	313,766
Reportable segment profit/(loss)	18,042	(8,254)	9,788	7,677	–	17,465
Unallocated expenses						(27,702)
Operating losses						(10,237)
Finance costs						(911)
Loss before income tax						(11,148)
Income tax						(8,294)
Loss for the period						(19,442)
Additions to non-current segment assets during the period	8,891	141	9,032	17,254	–	26,286

	At 30 September 2009					
	Retailing and distribution				**Inter-**	
	Mainland China HK$'000	**Hong Kong and Macao HK$'000**	**Sub-total HK$'000**	**CDM HK$'000**	**segment elimination HK$'000**	**Consolidated HK$'000**
Reportable segment assets	**139,310**	**6,022**	**145,332**	**38,537**	**–**	**183,869**
Unallocated assets						**304,006**
Total assets						**487,875**
Reportable segment liabilities	**16,771**	**3,491**	**20,262**	**14,966**	**–**	**35,228**
Unallocated liabilities						**17,606**
Total liabilities						**52,834**

3 SEGMENT REPORTING (continued)

	At 31 March 2009					
	Retailing and distribution				Inter-	
	Mainland China HK$'000	Hong Kong and Macao HK$'000	Sub-total HK$'000	CDM HK$'000	segment elimination HK$'000	Consolidated HK$'000
Reportable segment assets	145,746	5,105	150,851	60,493	–	211,344
Unallocated assets						303,396
Total assets						514,740
Reportable segment liabilities	20,481	923	21,404	27,990	–	49,394
Unallocated liabilities						3,821
Total liabilities						53,215

4 OTHER REVENUE

	For the six months ended 30 September	
	2009	2008
	HK$'000	HK$'000
Services income	**666**	–
Rental income	**125**	–
Interest income	**255**	1,776
Government grant	**–**	2,281
Others	**220**	13
	1,266	4,070

5 OTHER NET GAINS/(LOSSES)

	For the six months ended 30 September	
	2009	2008
	HK$'000	HK$'000
Net exchange loss	**(44)**	(113)
Net gain on disposal of property, plant and equipment	**–**	50
Gain on fair value change in trading securities	**1,536**	–
	1,492	(63)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the six months ended 30 September 2009 HK$'000	2008 HK$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**6**	895
Finance charges on obligations under finance leases	**–**	16
	6	911
(b) Other items:		
Depreciation		
– assets held for use under finance lease	**–**	152
– other assets	**12,536**	10,151
Impairment losses on trade and other receivables	**–**	9,774
Advertising and promotion expenses	**8,162**	15,391
Operating lease charges in respect of properties:		
– contingent rent	**7,684**	22,756
– minimum lease payments	**34,320**	28,115
Operating lease charges in respect of billboards	**8,153**	5,068

7 INCOME TAX

	Six months ended 30 September 2009 HK$'000	2008 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	114
Current tax – PRC income tax		
Provision for the period	**1,952**	11,180
Deferred tax		
Origination and reversal of temporary differences	**–**	(3,000)
	1,952	8,294

7 INCOME TAX (continued)

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 2009 and 30 September 2008.

(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) 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.

8 DIVIDENDS

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

	Six months ended 30 September	
	2009	2008
	HK$'000	HK$'000
Special dividend declared during the period	**–**	40,000

The Board does not recommend an interim dividend for the six months ended 30 September 2009 (six months ended 30 September 2008: Nil).

During the period ended 30 September 2008, the Company paid a special dividend of $0.04 per share on 9 September 2008.

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

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the period ended 30 September 2009 is based on the loss attributable to equity shareholders of the Company of HK$31,076,000 (2008: HK$19,442,000) and the weighted average number of ordinary shares in issue during the period ended 30 September 2009 of 995,136,352 (2008: 935,792,350 ordinary shares).

Weighted average number of ordinary shares

	For the six months ended 30 September 2009 No. of shares
At 1 April 2009	**992,238,000**
Effect of shares issued during the period	**2,898,352**
Weighted average number of shares	**995,136,352**

	For the six months ended 30 September 2008 No. of shares
Shares issued upon Reorganisation	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

(b) Diluted loss per share equals to basic loss per share because the exercise of share options would result in a decrease in the loss per share.

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:

	At 30 September 2009 HK$'000	At 31 March 2009 HK$'000
Within 3 months	**37,706**	33,180
Over 3 months but less than 6 months	**3,219**	811
Over 6 months	**2,791**	115
Total debtors, net of impairment loss	**43,716**	34,106
Deposits, prepayments and other receivables	**40,420**	23,850
	84,136	57,956

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

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

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 2009 HK$'000	31 March 2009 HK$'000
Due within 3 months or on demand	**9,574**	5,718
Due after 3 months but within 6 months	**3,645**	–
Due after 6 months	**32**	849
Trade creditors	**13,251**	6,567
Receipts in advance	**7,684**	11,929
VAT and other tax payables	**5,820**	3,497
Accrued charges and other payables	**22,930**	27,401
Amounts due to related parties	**–**	107
	49,685	49,501

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

In spite of the adverse impact of the global financial tsunami on the mid to high-end consumer market, the global economy and consumer confidence have been gradually reviving, and the retail market sentiment has been improving during the period under review. However, the rising operational costs impeded the development of the Group's retail business in the People's Republic of China (the "PRC"), affecting the overall development pace.

Despite the above, the Directors believe that riding on its highly competitive products, strong brand identity along with its extensive experience in the international fashion accessories market, the Group is capable to sustain its leading position in the industry forefront. Currently, the global economy is heading into recovery, the Board will review the Group's strategies with a view to improving its business performance in the dynamic market conditions to enhance the return to the shareholders of the Company in the medium to long run.

BUSINESS REVIEW

For the six months ended 30 September 2009, the Group recorded a total turnover of approximately HK$182,255,000, representing a decrease of 41.9% when compared with the same period in 2008. The decrease was primarily due to the adjustment in the number of retail outlets to combat the incomplete recovery of the economy worldwide, as well as the discounts to distributors. During the period under review, gross profit was approximately HK$98,175,000, and decreased by 38.7% when compared with the corresponding period last year. Regardless, the efforts of the Group's stringent cost control and adjustments in its operational strategies have been bearing fruit. Gross profit margin increased from 51.0% in 2008 to 53.9% in 2009. The Group recorded a net loss of HK$31,076,000.

Retail Business and Retail Network

Brands under the Group's retail business include "Artini" (雅天妮), "Q'ggle" (嬌酷), "Q'ggle Lingerie", "NBA", "Barbie" and "Disney". As at 30 September 2009, there were 93 "Artini" stores and 74 "Q'ggle" stores located in the PRC, Hong Kong and Macau (30 September 2008: 106 "Artini" stores and 75 "Q'ggle" stores). Turnover of the retail business amounted to HK$81,410,000, accounting for 44.7% of the Group's total turnover, representing a decrease of 50.3% as compared with that of 2008.

Stringent Cost Control

During the period under review, the Group continued to put profound efforts in cost control. Firstly, the Group conducted internal resources integration, streamlined headcounts and curbed expenses. The Group also closed down retail points with high rental expenses and opened new ones in lower rental areas. The Group adopted proactive approaches to negotiate with raw material suppliers to cut down production costs. In addition, the Group switched to less cost demanding expansion means including the setting up of online shopping platforms and adopting distributorship business model.

New Distribution Channels

The Group established online shopping platforms for "Artini" and "Q'ggle" in June this year. The Group also partnered with various China based banking institutions and corporations, such as China Merchants Bank, to set up online business platforms for product purchases and redemption. The platforms serve not only to promote interactions with consumers, but also to reach high purchasing power consumers in a cost effective way. In June 2009, "Q'ggle" successfully became an officially selected online shop in paipai.com, under the "QQ Link" of Tencent Group. Apart from extending client reach through the Tencent Group's giant client base, the Group also saved time from online commercial license application, making online retail business one step forward.

During the review period, the Group strengthened its distributorship business model to quickly penetrate the second, third and fourth tier cities in China. The Group has entered into cooperative agreements with over 30 experienced retail distributors in China to set up authorized retail outlets. As at 30 September 2009, there were 15 "Artini" stores and 12 "Q'ggle" stores operated by distributors in China. The number is expected to increase exponentially.

Broadened Brand Portfolio

The Group strived to develop a multi-brand business by cooperating with renowned international brand names. Following the attainment of the exclusive distribution right of "NBA" timepiece products last year, the Group was further granted in June this year the non-exclusive right to produce and distribute fashion jewelry, home, computer and bath accessories of the international brand of "Barbie", in the form of gold, steel, titanium, 925 silver and K gold material, in the PRC, Hong Kong and Macau. Celebrating their 50th anniversary this year, Barbie dolls attracted tremendous market attention and won rising popularity. Barbie's fashionable style of trendiness is a perfect match with the Group's product concept. The partnership helps reinforce the Group's recognition and prompt further expansion of its client base. The design of the first batch of "Barbie" products has been completed and the first store will be opened in January 2010. In addition, the Group attained the non-exclusive distribution right of The Walt Disney Company (Asia Pacific) Limited in October 2009, to use certain material and trademarks of Disney characters. Fuelled by the Disney fever amid the country with the construction of Shanghai Disneyland, the Group anticipates optimistic sales.

During the period under review, the Group actively enhanced the factory's efficiency to cater for the production of high gross profit margin products, matching with the sturdy and speedy growth momentum of the Group's retail business.

Brand Building and Marketing

The Group continued to adopt effective and diversified marketing strategies. Apart from placing advertisements on printed media, such as leading fashion magazines, the Group also promoted its brands and products via outdoor billboards, internets, word-of-mouth, fashion shows, sponsorships of entertainment events and TV drama series. Marketing and promotion expenses for the review period was approximately HK$8,162,000.

The Group also adopted the Customer Relationship Management ("CRM") program in order to enhance customer loyalty. As at 30 September 2009, the number of VIPs of "Artini" was 80,639, representing an increment of 28.1%, while that of "Q'ggle" was 31,132, with a dramatic rise of 194%. These loyal customers have contributed significantly to the Group's overall revenue. Buying behavior of VIPs is analyzed and the data is very useful in improving retail promotions and other marketing related activities, as well as developing new products, which cater to customers' specific needs and preferences.

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

Concurrent Design Manufacturing (CDM) Business

The Group's CDM business focuses on designing and producing fashion accessories for internationally renowned brands. The Group's extensive experience in the industry and strong international fashion sense allow it to collaborate closely with branded customers to develop and design high quality products concurrently. The Group has a diversified portfolio of renowned customers, including Marks & Spencer, Disney, Playboy, Tommy Hilfiger, Givenchy, Nine West, Nautica, Guess, Amway, Carolee and Tchibo, etc. Recently, the Group has entered the fine gift and premium market in the PRC, providing one-stop fine gift and premium services to large corporations in the PRC.

The Group's talented design team is highly knowledgeable in the latest and forthcoming fashion trends in the market. It consists of innovative designers from the United Kingdom, Hong Kong and the PRC. Leveraging on those expertise with international vision, the Group successfully adapted to ever-changing market trends in the period under review. 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, the designers accompanied the marketing team to participate in fashion accessories fairs, trade shows and exhibitions around the world to keep pace with the latest fashion trend.

Fine Gift and Premium Business

The Group added the fine gift and premium service into its business. Clients include China Mobile, Leconte, Amway, China Minsheng Banking Group Ltd., etc. For the six months ended 30 September 2009, the turnover for the CDM business has decreased 32.8% as compared with last year to HK$100,845,000, accommodating the Group's total turnover of 55.3%.

Wholesale Distribution

The Group endeavored to develop the wholesale business with the strong brand awareness under the brand of "Artini", "Q'ggle" and "Artist Empire". During the period under review, the Group has entered into a partnership agreement with a Dubai distributor, contributing approximately HK$10 million annual sales to the Group.

Production

In order to boost profit margin, enhance quality and control operational costs, the Group has outsourced certain low profit margin products to manufacturers, with the Group taking part in quality control. The Group's own production centre only focuses on producing high profit margin delicate items, allowing the elite talented production team to provide quality CDM services to famous brands all over the world.

FINANCIAL REVIEW

For the six months ended 30 September 2009, the Group recorded a total turnover of approximately HK$182,255,000, representing a decrease of 41.9% when compared with the corresponding period in previous year. The decline was due to the adjustment in the number of retail outlets, discounts to distributors and the weakened consumer sentiment. During the period under review, turnover of the retail and CDM business were approximately HK$81,410,000 and HK$100,845,000 respectively, accounted for 44.7% and 55.3% of the total turnover of the Group. The Group's turnover was mainly derived from the PRC, Europe and US markets, which accounted for 38.8%, 20.9% and 20.8% of the turnover respectively, compared to 58%, 15.7% and 11.0% for the same period last year.

During the review period, gross profit decreased by 38.7% to HK$98,175,000. Nevertheless, the Group's stringent cost control succeeded in improving its gross profit margin from 51.0% in 2008 to 53.9% in 2009. The production costs for the six months ended 30 September 2009 decreased from HK$153,609,000 of the same period last year to HK$84,080,000. The drop of 45.3% of production costs was attributable to the outsourcing of low gross profit products and less expensive but high quality suppliers.

Selling and distribution costs for the six months ended 30 September 2009 also decreased 18.5% from HK$142,151,000 to HK$115,921,000. It was due to the closure of stores with low cost-effectiveness and high rental, and shifting of the Group's distribution channels towards distributorship and online shopping platform. The moves dramatically trimmed rent and salary, which represented 68.5% of the total selling and distribution costs. Other operating expenses were HK$544,000 (2008: HK$12,293,000).

Income tax expense decreased from HK$8,294,000 for the six months ended 30 September 2008 to HK$1,952,000 for the six months ended 30 September 2009.

Liquidity and Financial Resources

As at 30 September 2009, the Group's outstanding borrowings amounted to HK$171,000, comprising interest-bearing bank borrowings repayable within one year. As at 30 September 2009, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying value of approximately HK$12,210,000; (ii) cross corporate guarantees given by the Company and certain of its wholly-owned subsidiaries. As at 30 September 2009, banking facilities available to the Group amounted to HK$10,211,000 (31 March 2009: HK$89,346,000), which were utilized by the Group to the extent of HK$171,000 (31 March 2009: HK$1,755,000).

The Group's primary source of operating funds is cash flow from operating activities. As at 30 September 2009, the Group had cash and cash equivalents of approximately HK$195,925,000 and the current ratio was 7.2, reflecting its healthy financial condition, which paved the way for future development. As at 30 September 2009, the Group's gearing ratio was 10.8%, which is calculated by dividing total liabilities by total assets.

During the six months ended 30 September 2009, net cash outflow from operating activities was approximately HK$54,946,000 (2008: net cash outflow from operating activities approximately HK$106,687,000), mainly due to (i) decrease in number of retail outlets; and (ii) decrease in cost of sales, selling and distribution expenses.

Interim Dividend

The Board did not recommend any interim dividends for the six months ended 30 September 2009.

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 contracts or hedging products to hedge its interest rate or exchange rate risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate. During the period under review, the Group recorded exchange losses of approximately HK$44,000.

Significant Investments and Acquisitions

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

Capital Commitments

As at 30 September 2009, the capital commitments contracted for was HK$6,286,000 (31 March 2009 was HK$1,599,000).

Contingent Liabilities

The Company and certain of its wholly-owned subsidiaries were covered by a cross-guarantee arrangement with respect to certain banking facilities granted to the Group.

Legal Proceedings and Potential Litigation

During the six months ended 30 September 2009, the Group was not involved in any litigation that had a material adverse effect on its financial condition and results of operations.

Human Resources

As at 30 September 2009, the Group had 2,657 employees. During the period under review, the total staff cost including directors' emoluments amounted to approximately HK$47,010,000. To enhance the expertise, product knowledge, marketing skills and the overall operational management skills of its employees, the Group organized 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 were granted to selected employees based on their individual performance.

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, investor relations representatives actively participated in various investor-related activities.

PROSPECTS

As the recovery of global economy gathers pace with the uplifted market atmosphere, sales in the first and second tier cities in the PRC have been improving. It is expected that the market will be fully recovered early next year. As at September this year, China's GDP growth rate has exceeded 8%, bringing prosperous environment to various business sectors, especially to the retail sector. The Group is determined to strengthen its leading market position as fashion accessories brand operator in the PRC. The Group will continue to apply prudent measures to monitor its financial resources, and step up efforts in the "Multi Brands, Multi Distribution Channels" development strategy.

FUTURE BUSINESS STRATEGY

Retail Business and Retail Network

The operating environment remains challenging. The Group will continue to implement various cost control measures. The Group is setting up new stores in shopping malls with better rental terms, and at the same time, conducting image re-branding and strengthening product designs to indulge the group of female customers who pursue high standards in noble and delicate fashion accessories. Looking forward, the Group will advance into the wedding market in the PRC in which a total of over 20,000 bridal veil outlets are currently operating. The market potential is immense with the growing number of newly wedded in the PRC in recent years. The Group will harness collective strength in "Artini" fashion accessories and offer affordable products to capture the market opportunities.

Meanwhile, the Group will further boost the "Q'ggle" brand to match with the market demand. Through distributorship business model and forming strategic partnership with well-established department stores, the Group plans to increase its scale of sales to 1,000 to 2,000 "Q'ggle" outlets sized 20 square foot to 200 square foot, in the coming three years. It greatly accelerates the penetration of Q'ggle in the second and third tier cities in the PRC.

Coupled with the reputation of the renowned international brand of "Barbie" and "Disney", the Group's broad distribution channels in the PRC and familiarization with China market, the Group is optimistic in the sales of this new facet of cooperation. Looking ahead, the Group will open 100 and 60 sales counters for "Barbie" and "Disney" respectively. The Group will keep actively exploring more strategic alliance opportunities with international renowned corporations to create synergy and broaden client base. In addition, the Group will introduce new products including lingerie, clothing collection and home décor products under the brand of "Artini" and "Q'ggle", to enhance brand value.

Given that the worldwide economy has not revived completely and inflation continues to arise, adding to the fact that consumer confidence has yet been fully resumed, the Group will work prudently to expand its retail network. The Group plans to expand its retail network to 200 outlets by 31 March 2010, plus 5 retail outlets for both "Barbie" and "Disney". The Group will also strengthen online shopping platform by cooperating with different online websites and enhancing product information delivery. Such strategy can effectively lower the operational costs and facilitate increase in the Group's overall profit capability.

CDM Business

The Group will seek new global CDM customers especially those from 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 cooperating with large corporations to design and produce souvenirs for their existing and potential customers. The wide range of products, including photo frame, home décor, bathroom and office necessities, souvenirs, etc., together with the broad consumer group, contribute to the huge potential of the fine gift and premium market. The Group will strive to cooperate with large corporations to design and produce souvenirs, acquiring larger market share.

Subsequent to the increase in marketing promotion by the Guangzhou Asian Games Organizing Committee on the Guangzhou Asian Games, growing numbers of Asian Games stores have been opened. In light of the variety and usefulness of the Asian Games products, many government organizations and renowned corporations have been purchasing related souvenirs. With less than one-year countdown to the opening of the Games, the Group believes that the sales of Asian Games products in the retail market and group purchasing market will contribute a significant amount of income to the Group in the coming year.

The Board believes that the China fashion accessories market is filled with ample opportunities. The Group is set to welcome challenges and market opportunities ahead.

CORPORATE GOVERNANCE

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 of the Company 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company has complied with all the provisions in the CG Code for the six months ended 30 September 2009, except that under provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer ("CEO") should be separated and should not be performed by the same individual. The role of the chairman is performed by Mr. Tse Chiu Kwan. Mr. Tse is one of the founders of the Group and possesses rich knowledge and experience of the jewellery industry and the related industries, the Board believes that vesting the role of the chairman in Mr. Tse provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the shareholders of the Company.

The Company has not appointed a CEO for the six months ended 30 September 2009. The overall management of the Company was performed by Mr. Tse Chiu Kwan, Ms. Ho Pui Yin, Jenny and Mr. Lin Shao Hua, all are the executive Directors who have extensive experience in the jewellery industry. Their respective areas of profession spearheads the Group's overall development and business strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and to determine the appointment of the position of CEO, if necessary.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended 30 September 2009.

Audit Committee

The Audit Committee was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all are the independent non-executive Directors, namely Mr. Lau Fai 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 2009.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises four members, namely Mr. Fan William Chung Yue (Chairman), Ms. Chan Man Tuen, Irene and Mr. Lau Fai Lawrence, the independent non-executive Directors and Mr. Tse Chiu Kwan, an executive Director. The primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration of Directors and senior management of the Company and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management of the Company.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Nomination Committee comprises four members, namely Mr. Lau Fai Lawrence (Chairman), Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue, the independent non-executive Directors and Mr. Tse Chiu Kwan, an executive Director. The primary function of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management of the Company.

Investment Committee

The investment committee of the Company (the "Investment Committee") was established on 17 July 2009 with written terms of reference in compliance with the CG Code. The Investment Committee comprises three executive Directors, namely Mr. Tse Chiu Kwan (Chairman), Ms. Ho Pui Yin, Jenny and Mr. Lin Shao Hua. Pursuant to its written terms of reference, the primary function of the Investment Committee is to utilise funds available to make various investments, including but not limited to investments in securities and properties, with an aim to bring a higher return, as compared with bank deposit, to the Company and its shareholders as a whole.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 September 2009 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 2009 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, 11 December 2009

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