ARTINI CHINA CO. LTD.
雅天妮中國有限公司
(Incorporated in Bermuda with limited liability)

# Annual Report 2009-10

ARTINI
雅天妮
Stock Code: 789

In one word, ARTINI is inspiration. It represents both art and trend, and embodies the inspiration influenced by European designs. Together with the vibrant use of materials, ARTINI renders romance and nostalgia in our lives.

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


ARTINI is inspiration

# Contents








ARTINI



**To create the extraordinary ARTINI experience, to ignite a life-affirming and passionate emotion within ARTINI customers.**

ARTINI
雅天妮

# SPARKS OF LIFE

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tse Chiu Kwan (Chairman)
Mr. Lin Shao Hua
Mr. Lau Yau Chuen, Louis

### Non-executive Director

Ms. Yip Ying Kam (Vice Chairman)

### Independent Non-executive Directors

Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence
Mr. Fan William Chung Yue

## AUDIT COMMITTEE

Mr. Lau Fai Lawrence (Chairman)
Ms. Chan Man Tuen, Irene
Mr. Fan William Chung Yue

## REMUNERATION COMMITTEE

Mr. Fan William Chung Yue (Chairman)
Mr. Tse Chiu Kwan
Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence

## NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (Chairman)
Mr. Tse Chiu Kwan
Ms. Chan Man Tuen, Irene
Mr. Fan William Chung Yue

## INVESTMENT COMMITTEE

Mr. Tse Chiu Kwan (Chairman)
Mr. Lin Shao Hua
Mr. Lau Yau Chuen, Louis

## COMPANY SECRETARY

Mr. Lo Wah Wai, *HKICPA, AICPA*

## AUTHORISED REPRESENTATIVES

Mr. Tse Chiu Kwan
Mr. Lau Yau Chuen, Louis

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL BANKERS

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

## LEGAL ADVISERS

### As to Hong Kong law

Richards Butler
in association with Reed Smith LLP
20th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

### As to PRC law

Guangdong Guangda Law Firm
27th Floor, Dongshan Plaza
69 Xian Lie Road Central
Guangzhou 510095
PRC

### As to Bermuda law

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

### As to Macao law

Gonçalves Pereira, Rato, Ling, Vong & Cunha –
Avenida da Amizade, 555-Macao Landmark
Office Tower, 23rd Floor, Room 2301–2302
Macao SAR

## COMPLIANCE ADVISER

Guangdong Securities Limited
Unit 2505–06
25/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## AUDITORS

KPMG
Certified Public Accountants
8/F Prince's Building
10 Chater Road
Central
Hong Kong

## SHARE REGISTRARS

### Principal share registrar and transfer office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda

### Hong Kong branch share registrar and transfer office

Union Registrars Limited
18/F Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

## INVESTOR RELATIONS

PR Asia Consultants Limited
13/F, Kailey Tower
16 Stanley Street
Central, Hong Kong

## LISTING EXCHANGE INFORMATION

### Place of Listing

The Stock Exchange of Hong Kong Limited

### Stock Code

789

## COMPANY'S WEBSITE

www.artini-china.com

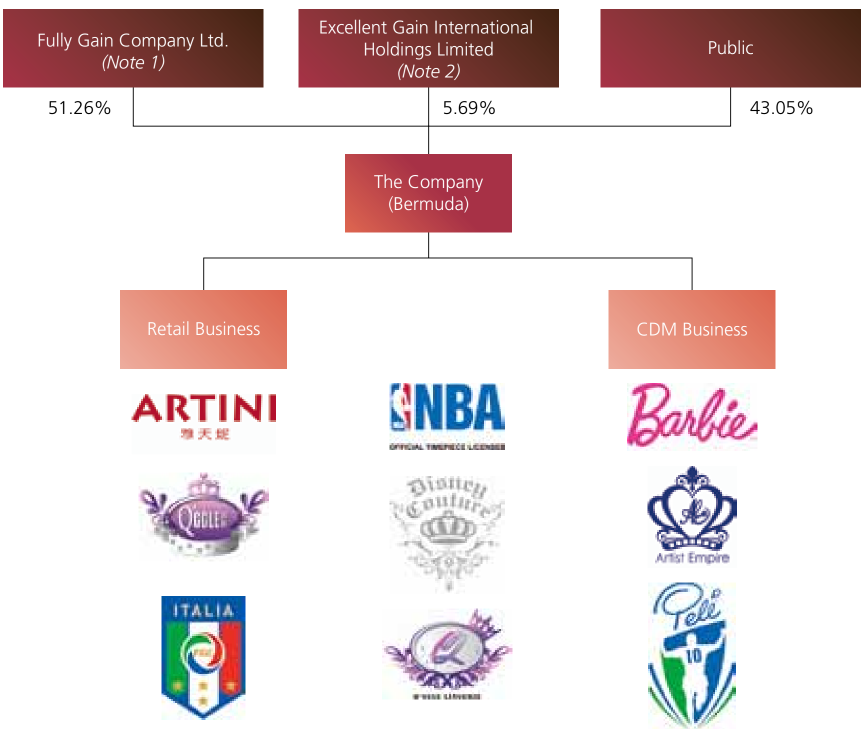
# Corporate Profile

Artini China Co. Ltd. (the "Company" or "Artini") is a leading retail chain operator and manufacturer of fashion accessories and gift and premium items. Started as an export and trading company of fashion accessories 18 years ago, the Company and its subsidiaries (collectively, the "Group") have worked hand-in-hand with internationally acclaimed brands from design to delivery, and boasted extensive experience in the fashion accessories industry.

Under the Group's brand portfolio, it had initially launched 2 proprietary brands, Artini and Q'ggle; and then brought in world famous licensing brands of NBA, Barbie, Disney, Pelé and Federazione Italiana Giuoco Calcio ("FIGC"). Q'ggle Lingerie has been launched recently for the young female and Artist Empire will tap into the gifts and premiums market. Our brands are distributed in The People's Republic of China (the "PRC"), Hong Kong and Macao through retail stores, concessions, authorised retail outlets and online platforms. By means of a well-established vertically integrated business model, the Group is selling merchandise while implementing the concurrent design manufacturing ("CDM") model to develop, design, and manufacture products for the Group's seven brands and world-renowned brands including Marks & Spencer, Playboy, Disney, Nine West, Givenchy and Anne Klein of over 10 million pieces annually, distributing to the PRC, Europe, America, etc.

As at 31 March 2010, the Group's retail network comprised about 150 retail points across 40 cities in the PRC, Hong Kong and Macao, with a strong presence in first-tier cities such as Beijing, Shanghai and Shenzhen.

As at the date of this report, the corporate structure of our Group was as follows:




*Notes:*

1. Fully Gain Company Ltd. is a company incorporated in the British Virgin Islands and wholly owned by Mr. Tse Chiu Kwan.

2. Excellent Gain International Holdings Limited is a company incorporated in the British Virgin Islands and wholly owned by Ms. Yip Ying Kam.

# Five-Year Financial Highlights

(All amounts in HK$ thousands unless otherwise stated)

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| Turnover | **366,119** | 564,101 | 596,739 | 339,480 | 291,739 |
| Gross profit | **175,777** | 237,608 | 376,426 | 191,696 | 114,282 |
| (Loss)/profit from operations | **(98,483)** | (137,641) | 130,437 | 84,255 | 57,481 |
| (Loss)/profit for the year | **(100,449)** | (140,529) | 110,024 | 73,488 | 52,773 |
| Non-current assets | **120,956** | 121,083 | 105,214 | 59,401 | 27,300 |
| Current assets | **425,567** | 393,657 | 269,868 | 169,705 | 94,587 |
| Current liabilities | **81,441** | 51,185 | 193,097 | 95,203 | 52,989 |
| Net current assets | **344,126** | 342,472 | 76,771 | 74,502 | 41,598 |
| Total assets less current liabilities | **465,082** | 463,555 | 181,985 | 133,903 | 68,898 |
| Total equity | **463,192** | 461,525 | 154,362 | 100,647 | 41,288 |
| Gross profit margin (%) | **48.0** | 42.1 | 63.1 | 56.5 | 39.2 |
| Net (loss)/profit margin (%) | **(27.4)** | (24.9) | 18.4 | 21.6 | 18.1 |
| Basic and diluted (loss)/earnings per share (HK$) | **(0.098)** | (0.145) | 0.147 | 0.098 | 0.070 |
| Return on equity (%) | **(21.7)** | (45.6) | 86.3 | 103.6 | 255.8 |
| Return on assets (%) | **(18.9)** | (31.6) | 36.4 | 41.9 | 52.0 |
| Debt to equity | **—** | — | 1.1 | 0.8 | 1.6 |

# Chairman's Statement

With unparalleled confidence, we build up the sophisticated, tasteful, and trendy ARTINI'S life-style.


**Tse Chiu Kwan**
*Chairman*

# Chairman's Statement

Dear Shareholders:

On behalf of the Company and the Group, I hereby present the annual report on the consolidated results of the Group for the year ended 31 March 2010 (the "Year") to the shareholders of Company (the "Shareholders").

## ENHANCE OUR STRENGTH FOR NEXT STEP

For the Year under review, the Group has experienced the most crucial stage of the growth of a corporate — consolidation period, giving me complete confidence in the design of our development blueprint in the future. During the Year, retail businesses of both Mainland China and Hong Kong were under tremendous pressure of operating costs, resulting in a further step-downed point of sales. As a consequence, turnover of the Group for the Year was also slightly affected. However, under the Group's philosophy of "multi-brand", two proprietary brands, Artini and Q'ggle maintained a stable result as usual, while the business of Q'ggle has been extended to the market of young female lingerie with the launch of "Q'ggle Lingerie". License distribution business has also gained breakthroughs. During the Year, special licensing agreements have been entered into with Pelé and FIGC, successfully opening up the business of football-related accessories and premiums.

For the CDM business, during the Year, souvenirs and premiums manufactured by the Group to celebrate the 35th anniversary of the evergreen brand "Hello Kitty" has gained unprecedented success. Meanwhile, the Group is also responsible for the design and manufacturing of the premiums and souvenirs of large-scale events such as Shanghai Expo and the 16th Guangdong Asian Games, leading Artini to a new-high!


## DISTINCT COLLABORATION FOR MORE OPPORTUNITIES

Looking ahead to the coming year, the Group will spare more efforts to explore business opportunities to cooperate with large-sized enterprises. The Group has signed letter of intent with a cooperation partner in July this year, aiming to become the first fashion accessories brand working with China Post to develop distribution channels for direct mail order and make its home in Postal service halls nationwide. In the meantime, the

Group is choosing a suitable person as our brand endorser to establish a more explicit brand image and "Artini's life style" of delicate, tasteful, and fashionable.

In respect of CDM business, the Group will continue to grasp the opportunity for collaborations with other international well-known brands and, at the same time, take the initiatives to develop different accessories series, in order to be in line with our well-established vertically integrated business model, providing customers with one-stop service. With the Group's core competitiveness, we will gain more customers of

international brands through our stunning design and superior craftsmanship.

## APPRECIATION

I would like to, on behalf of the board (the "Board") of directors (the "Directors") of Company, express my sincerest gratitude to our employees, Shareholders, customers, suppliers and partners. The Group is committed to improving performance to reward Shareholders and all parties for their on-going support.

**Tse Chiu Kwan**
*Chairman*

Hong Kong, 29 July 2010

To blend with the European sense of fashion, our shining and delicate accessories reflect the unique endowment of women.

ARTINI
雅天妮

# SPARKS OF TREND

# The International Fashion Accessories Leader

Q'GGLE

Barbie ACCESSORIES



Disney Couture
© DISNEY

# Management Discussion and Analysis

**Whether be it whimsical, sophisticated, classic or trendy, the ARTINI characters shine through each piece of jewellery. Sparks of Life are also presented in a myriad of ways in each season, bestowing the modish women the joy of life in every moment.**

## MARKET REVIEW

During the Year, the economic performance of the PRC has outperformed other major systems, being the only major economic system achieving a growth in annual Gross Domestic Product ("GDP") in the calendar year 2009. According to the statistics provided by the National Bureau of Statistics of China, in the first half of 2009, the GDP of the PRC recorded a growth of 7.1% over the corresponding period last year. Its GDP grew at 6.1% in the first quarter and even achieved 7.9% in the second quarter, reflecting a stable recovery of the domestic economy in the first half of 2009. Meanwhile, the total retail sales of social consumers in the first quarter of 2009 recorded a growth of 15.0% over the corresponding period last year, showing that the continuous stable growth in consumer confidence and boosting the development in retail industry. During the Year under review, the Group has undergone business restructure for effectively improving the profitability of the retail stores. In the view of the stable growth in domestic economy and the high demand for fashionable accessories among consumers, the Group will enhance the expansion of creative sales channels and increase the market permeability, grasping the opportunity arising from the next consumption growth for maximising the Shareholders' returns.

# Management Discussion and Analysis

## BUSINESS REVIEW

For the Year, the Group recorded a total turnover of approximately HK$366,119,000 (2009: HK$564,101,000), representing a decrease of 35.1% over the previous year, which is mainly caused by the Group's strategic restructure of overall business development as well as the active adjustment made on the number of sales points and discount rates for agents in response to the market situation. Gross profit was HK$175,777,000 (2009: HK$237,608,000), representing a decline of 26.0% over last year. However, with the success of the Group's stringent cost control and adjustments on the operational strategies, our gross profit margin increased to 48.0% from 42.1% for the previous year while the loss for the Year attributable to the equity shareholders of the Company was HK$100,449,000 (2009: HK$140,529,000). The reduction in loss is mainly contributed by the improvement of the gross profit margin for the Year. The loss per share was HK$0.098 (2009: HK$0.145).

The Board does not recommend to declare the final dividend for the year ended 31 March 2010 (2009: HK$Nil).

### Retail business

The Group developed its retail business through the "multi-brand strategy", including "Artini", "Q'ggle", "Q'ggle Lingerie", "NBA", "Barbie" and "Disney". During the Year, the Group has successfully signed a license agreement with legendary football player Pelé and FIGC and was granted the non-exclusive licence and rights for using the source materials and trademarks for its design, production, global wholesales and retail.

During the Year, the Group has continued its stringent cost control by undergoing internal resources integration, streamlining the labour structure and cutting down the expenses. It also had active negotiation with raw materials suppliers and closed the retail stores with high rentals, in order to lower the production and operation costs. As at 31 March 2010, the Group had approximately 150 retail points throughout the PRC, Hong Kong and Macao, covering more than 40 Chinese cities. Retail business recorded a turnover of HK$152,203,000 (2009: HK$273,182,000), accounting for approximately 41.6% of the Group's total turnover, which decreased by 44.3% over the previous year.

1) *Develop new marketing channel*

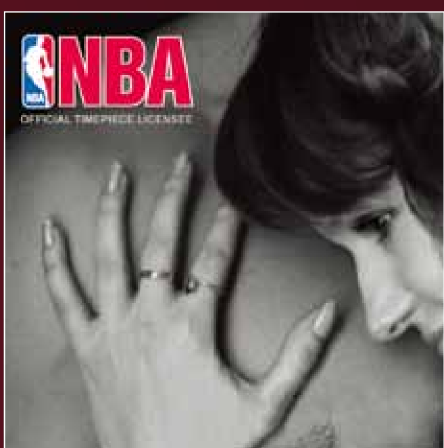
During the Year, the Group has adjusted its marketing strategy and developed online shopping panel and agency business, which operate with lower cost. The Artini and Q'ggle online shopping malls were established. Furthermore, Q'ggle has expanded its business to the QQ website in tencent.com ("Tencent") and become one of its official auction sites. The enormous number of users of Tencent has expanded our source of customers. Moreover, online shopping saves the lengthy period of examination of application for online marketing licence. With the brand's popularity, our online marketing business has been developed with great efficiency.

The Group has also strengthened the development of online marketing with agency operation and expanded its sales network, in a cost effective and rapid manner, to every town and city other than the first tier cities in China. We have already reached agreements with 20 experienced retail sales agents to establish retail points in different parts of the country.

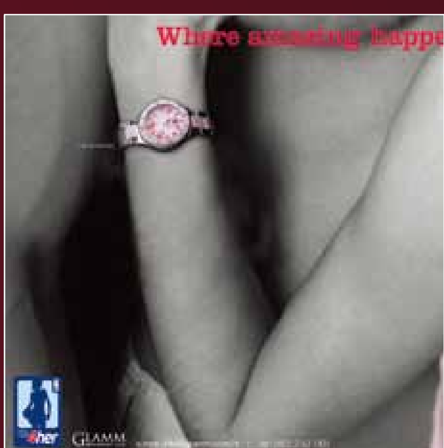
To develop brand distribution license with its general retail network; and to design and produce with its fashionable design.

# Management Discussion and Analysis

O'GGLE LINGERIE




NBA
OFFICIAL TIMEPIECE LICENSEE




Artist Empire

**Whether it is a facet of crystal catching the sun's rays... The red, green and blue of a semi-precious stone... The ticklish hairs of dyed feathers...**

2) *Brand establishment and marketing promotion*

During the Year, the Group continued to adopt the promotion strategy featuring high efficiency and diversity. Other than advertisements on printed media such as fashion magazines, we have enhanced our popularity and promoted our products through outdoor advertisement boards, internet, word-of-mouth advertising, fashion shows, sponsoring entertainment programmes, TV dramas, etc.

3) *Customer relationship management plan*

Adopting the customer relationship management plan, the Group enhanced the loyalty of its customers. Till 31 March 2010, the number of prestige customer of Artini was 78,608, which shows an increase of 10%; the number of prestige customer of Q'ggle has increased by 68% and reached 36,373. Loyal customers contribute the major income for the Group. We developed new products that suit them through analysing their shopping mode and strategically planning our promotion and related activities.

# Management Discussion and Analysis

## The sumptuousness of mother-of-pearl... Or the unmistakable glint of gold and silver... ARTINI manages to make poetic, romantic adornments.

## CDM business

The Group continued to develop its CDM business in the last annual term. We designed and manufactured products simultaneously for international renowned brands and sold to different parts of the world. With profound experience in accessories development and marketing and deep knowledge in global trend, we cooperated closely with international renowned brands including Marks & Spencer, Disney, Playboy, Tommy Hilfiger, Givenchy, Nine West, Nautica, Guess, Amway, Carolee, Tchibo, etc. Furthermore, the hang accessories we created for Hello Kitty, the ever green brand, to celebrate its 35th anniversary, has achieved unprecedented success. With the popularity of Hello Kitty and the premium quality of our craftsmanship, the product redemption programme in 7-11, the convenient store created a big hit in Hong Kong!

Artist Empire, an export brand developed by the Group, won recognition from overseas clients with its exceptional design and delicate technology. Relevant products are being sold in retail chain shops over European countries and the United States.

Regarding the mainland market, the Group has been expanding its business in the gift and premium market through providing one-stop gift and premium service to large-scaled enterprises in Mainland China. Our clients during the Year include China Mobile, Leconte, Amway, China Minsheng Bank, China Merchants Bank, etc. Moreover, we were proud to be one of the manufacturers of gift and premium for the Shanghai Expo. We have developed, designed and produced more than 70 items for the event. Each item features a number of series adopting different themes such as the China Pavilion and the Expo's mascot. Products were sold over 638 licensed retail shops in China.

Regarding international sport event, the Group has gained another victory after the Beijing Olympic by manufacturing and selling gifts and souvenirs for the Guangzhou Asian Games.

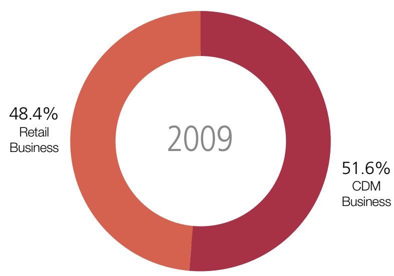
During the Year, the CDM business reached 58.4% of the total turnover and HK$213,916,000, showing a 26.5% decrease comparing with the figure in 2009 (HK$290,919,000).

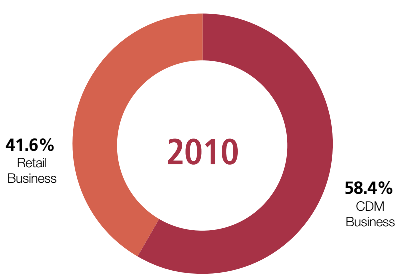
# FINANCIAL REVIEW

## Turnover

Turnover of the Group for the Year amounted to HK$366,119,000, representing a decrease of 35.1% compared to the previous year.

## Turnover of the Group by business segments




## Retail business

The retail business was one of the two major revenue generators for the Year under review, accounting for 41.6% of the Group's total turnover (2009: 48.4%).

During the Year under review, turnover from our retail business decreased 44.3% to HK$152 million. This decline was mainly driven by the weakened consumer purchasing power in the PRC market as a consequence of the global financial tsunami.

## Retail business turnover

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Hong Kong and Macao | **25,175** | 27,961 |
| The PRC | **127,028** | 245,221 |
| Total | **152,203** | 273,182 |

## CDM business

CDM business turnover recorded a year-on-year decrease of 26.5% to HK$214 million during the Year under review, accounting for 58.4% of the Group's total turnover (2009: 51.6%). This decrease was mainly due to the slackened economic conditions in the US and Europe.

## Turnover by geographical distribution segments

Turnover of the Group was mainly derived from the PRC, the American, the European, and Hong Kong and Macao markets, which accounted for 35.7%, 22.2%, 20.5% and 14.5% of the turnover respectively in 2010, compared to 48.3%, 11.0%, 15.7% and 20.1% in 2009.

## Cost of sales

Cost of sales decreased from approximately HK$326,493,000 for the year ended 31 March 2009 to approximately HK$190,342,000 for the year ended 31 March 2010, representing a decrease of approximately HK$136,151,000. This was mainly due to the effective cost control.

## Gross profit

The overall gross profit of the Group decreased from HK$237,608,000 in 2009 to HK$175,777,000 in 2010, representing a decrease of 26.0%. The gross profit margin also increased from approximately 42.1% to approximately 48.0%, primarily due to the effective cost control and the increase in unit price of CDM products.

# Management Discussion and Analysis

## Operating expenses

Operating expenses for the Year accounted for 72.7% of the Group's total sales, compared with 63.3% last year. They mainly comprised selling and distribution costs as well as administrative outlays, all of which were effectively managed by the Group's reinforced management team along with strengthened internal oversight and process control.

Selling and distribution costs decreased from approximately HK$302,985,000 for the year ended 31 March 2009 to approximately HK$210,192,000 for the year ended 31 March 2010, representing a decrease of approximately HK$92,793,000. The reduction in selling and distribution costs was mainly attributable to the substantial decrease in the Group's rental and staff costs as a consequence of the expanded selling agency network.

The Group's administrative expenses primarily comprised fixed assets depreciation and staff costs for Directors and executives. These expenses amounted to HK$55,939,000 for the Year under review, representing 15.3% of the Group's total sales, compared with 9.6% last year.

During the Year, other operating expenses decreased to HK$9,185,000 (2009: HK$23,310,000) mainly due to the decrease in the impairment loss on trade and other receivables from HK$17,490,000 to HK$6,160,000.

## Loss attributable to equity shareholders of the Company

Loss attributable to equity shareholders of the Company was HK$100,449,000 (2009: HK$140,529,000) for the Year under review.

## 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.

## Income tax

During the Year under review, the income tax expense of the Group amounted to HK$622,000 (2009: HK$1,866,000). This reduction was mainly due to decreased profit contributions from the Group's PRC subsidiaries, resulting in decreased PRC tax payables.

## Loss per share

There was a decrease in loss per share from HK$0.145 for the year ended 31 March 2009 to loss per share of HK$0.098 for the Year.

## Dividend

The Board does not recommend the distribution of a final dividend for the Year (2009: HK$Nil).

## Foreign exchange exposure

The main business activities of the Group take place in the PRC, the America, Europe and Hong Kong with most transactions settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Directors consider that the potential foreign exchange exposure of the Group is relatively limit. Moreover, the Group has not used any forward contracts or other derivative products to mitigate interest rate or exchange rate risks. The management of the Group will, nonetheless, continue to monitor foreign currency risks and adopt prudent measures as appropriate since our financial policy explicitly prohibits the Group from participating in any speculative activities. During the Year under review, the Group recorded net exchange loss of approximately HK$95,000.

## Significant investments and acquisitions

During the Year under review, the Group invested in 19.9% of a company, which has then become an associate of the Group, at an initial investment cost of HK$498,000. Save as disclosed herein, the Group did not have any significant investments, acquisitions or disposals of subsidiaries and associated companies. We continued to seek opportunities to acquire and cooperate with international customers in order to generate more returns for the Shareholders and the Board will decide what the best available source of funding is for the investments and acquisitions when suitable opportunities arise.

## Use of the proceeds from the Initial Public Offering

In addition to the disclosure in the Company's interim report dated 22 December 2008 and the annual report dated 17 July 2009 in relation to the use of proceeds from the initial public offering of the Company ("IPO"), for the year ended 31 March 2010, a total amount of HK$97,300,000 was utilised in accordance with the manner as described in the annual report dated 17 July 2009. The remaining net proceeds amount to HK$121,300,000.

## Impairment loss on trade and other receivables

For the Year, the impairment loss on trade and other receivables amounted to approximately HK$6,160,000 (2009: HK$17,490,000).

## Employees and emoluments

As at 31 March 2010, the Group had 2,290 employees. To enhance their expertise, product knowledge, marketing skills and overall operational management abilities, the Group organises regular training and development courses for staff, 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.

## Liquidity and financial resources

As at 31 March 2010, the Group's convertible bonds and obligations under finance leases amounted to HK$15,620,000 and HK$464,000 respectively. As at 31 March 2010, 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$11,897,000; and (ii) cross corporate guarantees given by the Company and certain of its wholly-owned subsidiaries. As at 31 March 2010, banking facilities available to the Group amounted to HK$11,419,000 (2009: HK$89,346,000), which were utilised by the Group to the extent of HK$1,619,000 (2009: HK$1,755,000).

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratio of the Group was 15% as at 31 March 2010 (2009: 10%). The Group had time deposits and cash balances as at 31 March 2010 amounted to HK$191,431,000 (2009: HK$277,897,000).

Some of the Group's banking facilities are subject to capital requirements imposed by certain creditor banks. For the year ended 31 March 2009, the Group did not comply with one of the financial covenants imposed by a creditor bank. Upon discovery of the breach, the Directors have renegotiated with the related creditor bank and obtained a waiver in July 2009.

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

# Management Discussion and Analysis

## FUTURE PROSPECT

The year 2010 is a turning point for the sustainable development of the Group's business. The Group's business has been reorganised after experiencing a tough consolidation period last year. The Group is negotiating with a company which operates large-scale department store in Mainland China for developing business opportunities to sell the Group's two brands Artini and Q'ggle products, and sell each Group distributor's brands, such as NBA, Barbie, Disney, etc. in the department stores owned by this company which will enhance the Group's coverage and scale of business.

In addition, the Group is negotiating with an Italian brand agency to introduce the Company's brands to all provinces of the PRC, and to establish European lifestyle brand centers, which the Group's hope will become the youth fashion shopping centers, and to introduce wide range of European fashion brands and quality products to people all over the Mainland China. At the same time to create innovative retail concept to meet the youth passion for diversification trend of grade. Branded goods include all kinds of leisure bags, gift and fashion daily use. The brands distributed by the Group may significantly improve after duly finalised Cooperation Agreement and enhanced the whole level of the Group's goods. Looking forward, the Group hopes, based on this, to further acquire licences for international renowned brands to accelerate the development of the brand agency business.


ARTINI
雅天妮

Artini is aiming to become the first fashion accessories brand to cooperate with China Post Group Corporation ("China Post"). In July 2010, the Group has entered into a non-legally binding letter of intent with China Post Trade Development Co. Ltd ("CPT") to develop various postal related products issued by China Post, and sell in China Post and more than 60,000 post offices of China Post throughout the country and developing distribution channels for direct mail order for Artini's products via China Post network. CPT is an authorised representative of GuangDong Post Advertising Co., Ltd. (a wholly-owned subsidiary of China Post ("GuangDong Post")). Upon the confirmation of a binding agreement, Artini's products will be distributed in the post offices nationally and will reach every corner throughout China with the postal service of China Post.

Meanwhile, the Group has further expanded business opportunity via China Post and has signed a consignment agreement with GuangDong Post. Pursuant to the agreement, GuangDong Post will sell the Guangzhou Asian Games licensed products supplied and manufactured by the Group through franchise shops which are authorised by the Guangzhou Asian Games Organising Committee; the Group will also provide related marketing support and staff training to Guangdong Post. It is intended that the first phase will start with opening 124 franchised shops in Guangdong, and expand to other provinces.

The Group will identify new customers of its CDM business throughout the world, particularly customers from developing countries such as China and Russia. In addition, from the perspective of the current gift market in which the Group cooperates and the global gift market, there is a big space to develop gifts and premium items. The Group will explore greater market opportunities by cooperating with large corporations to design and produce gift and premium items for the existing and target customers.

Against "individual traveller" market and for the purpose of increasing recognition in Mainland China, the Group entered into an advertisement contract for a term of two years with a famous Hong Kong advertisement company in April 2010. Advertisement images of Artini brand are shown in 38 huge outdoor billboards across Hong Kong, covering each main links, railways and hot tourist attractions of Hong Kong, which will make a deep impression on Artini brand in the mind of travelers from Mainland China.

With our high quality design and products, the Group seeks to extend creative elements of refinement and fashion into various fashionable women's daily necessities, and to establish "Artini exquisite ladies living concept", which formed a brand new fashion culture of women's daily necessities. 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.

To bring joy and delight to customers by the intricacies, details and creativity of ARTINI pieces.

ARTINI
雅天妮

# SPARKS OF JOY

# Biographical Details of Directors and Senior Management

## DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Mr. TSE Chiu Kwan**, aged 46, is the co-founder of the Group and was appointed as the Chairman of the Board and an executive Director on 14 June 2007. He is also the Chairman of the investment committee of the Company, a member of the remuneration committee and nomination committee of the Company and an authorised representative of the Company. He is a director of a number of subsidiaries of the Company. Mr. Tse, co-founded the Group in June 1992, is primarily responsible for the Group's overall management, strategic planning and business development. He has more than 20 years of experience in the fashion jewelry industry. Mr. Tse is currently the honorary president of the Hong Kong Pearl Association and the Hong Kong Gold & Silver Ornaments Workers & Merchants General Union and the honorary president of the Hong Kong Gemstone Manufacturers' Association. Mr. Tse has also been awarded the "中國國際愛國愛港傑出人士獎" jointly by the Investment Committee of Outstanding Chinese People for the Celebration of the 10th Anniversary of the Return of Sovereignty of Hong Kong ("香港回歸十週年座談會暨投資交流會"), the China Straits Triplace Experts Enterpriser Associations, The Hong Kong Small and Medium Enterprises Association and Shenzhen City Southern Privately Run Science and Technology Institute, and the "中國企業創新優秀人物" jointly by China Marketing Association and the China Enterprise News Agency and an honorary citizen of Shanwei City. In December 2009, Mr. Tse has been awarded the "保增長、促發展 — 2009年中國經濟產業振興年度人物創新獎" jointly by 新華社《經濟參考報》社，中國國際經濟技術交流中心 and 《中國城市經濟》雜誌社。Mr. Tse is also a member of the 5th term of the Guangdong Shanwei Committee of the Chinese People's Political Consultative Conference. Mr. Tse is the spouse of Ms. Yip Ying Kam, a non-executive Director, and the brother-in-law of Mr. Lin Shao Hua, an executive Director. Mr. Tse is the sole director of Fully Gain Company Ltd. which was interested in 648,088,000 shares of the Company as at 31 March 2010.

**Mr. LAU Yau Chuen, Louis**, aged 33, was appointed as an executive Director, an authorised representative and a member of the investment committee of the Company with effect from 26 May 2010. He joined the Company in April 2008 and he is also the financial controller of the Company. Mr. Lau graduated from City University of Hong Kong majoring in Accountancy. Mr. Lau has 10 years audit and compliance experiences gained from international audit firms and a Singapore listed company. He is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

**Mr. LIN Shao Hua**, aged 50, was appointed as an executive Director on 17 July 2009. He is also a member of the investment committee of the Company. He has 18 years of experience in factory management and product development. He has worked at Artist Empire (Hai Feng) Jewellery Mfy. Limited, a wholly-owned subsidiary of the Company, as the general manager since 1991, responsible for the overall management and business development of Artist Empire (Hai Feng) Jewellery Mfy. Limited. He is currently a member of the Hai Feng County Committee of the Chinese People's Political Consultative Conference ("海豐縣政協委員"). Mr. Lin is the brother-in-law of Mr. Tse Chiu Kwan, an executive Director.

## Non-executive Director

**Ms. YIP Ying Kam**, aged 46, is the co-founder of the Group and was appointed as the Vice Chairman of the Board on 14 June 2007 and was re-designated as a non-executive Director on 17 July 2009. She is a director of a number of subsidiaries of the Company. Ms. Yip, co-founded the Group in June 1992 with Mr. Tse Chiu Kwan, is primarily responsible for overseeing the corporate development, investment divisions, administration, human resources and information technology of the Group. Following her academic studies, she joined Mr. Tse in managing the Group's business. Ms. Yip has over 20 years of experience in the fashion jewelry industry. Ms. Yip has obtained an Honours Diploma in history from the Hong Kong Baptist College (now known as the Hong Kong Baptist University). Ms. Yip is the spouse of Mr. Tse Chiu Kwan, an executive Director (who is the brother-in-law of Mr. Lin Shao Hua, an executive Director). Ms. Yip is the sole director of Excellent Gain International Holdings Limited which was interested in 72,000,000 shares of the Company as at 31 March 2010.

## Independent Non-executive Directors

**Ms. CHAN Man Tuen, Irene**, aged 44, was appointed as independent non-executive Director on 23 April 2008. She is also a member of the audit committee, remuneration committee and the nomination committee of the Company. Ms Chan worked for Beijing Olympics Broadcasting Company (BOB) as its Head of Human Resources during the Beijing Olympics. Ms. Chan also held various management positions in the Walt Disney Company (Asia Pacific) Limited, the Hongkong Disneyland Management Limited and Shell Hong Kong Limited. Ms. Chan has served a number of charitable or non-profit making bodies, including the Community Chest of Hong Kong (General Donations and Special Events Committee member), the Zonta Club of New Territories (member), and Environmental Campaign Committee (co-opted member of Projects and Publicity Working Group). Ms. Chan graduated from the University of Essex in the UK with a Bachelor degree in Policy-Making and Administration in July 1987 and obtained a Degree of Master of Business Administration from the City University in London and a Degree of Master of Philosophy from the University of Cambridge. Ms. Chan has also completed the research course in Communications from the School of Journalism and Communication at Peking University in 2008.

**Mr. LAU Fai Lawrence**, aged 38, was appointed as independent non-executive Director on 23 April 2008. He is also the chairman of the audit committee and the nomination committee of the Company and a member of the remuneration committee of the Company. Mr. Lau has extensive experience in accounting, corporate finance and auditing. He is a practising certified public accountant in Hong Kong and is currently the Joint Company Secretary of BBMG Corporation which is listed on the main board of the Stock Exchange. Before joining BBMG Corporation, he was the Group Financial Controller of Founder Holdings Limited and EC-Founder (Holdings) Company Limited, both of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lau has previously worked in Price Waterhouse Company Limited (now known as PricewaterhouseCoopers) as an accountant from 1994 to 1998. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountant in England and Wales and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor's degree in Business Administration and obtained a Master of Corporate Finance degree from The Hong Kong Polytechnic University.

# Biographical Details of Directors and Senior Management

**Mr. FAN William Chung Yue**, aged 69, was appointed as independent non-executive Director on 23 April 2008. He is also the chairman of the remuneration committee of the Company and a member of the audit committee and the nomination committee of the Company. Mr. Fan has been a practising solicitor of the High Court of Hong Kong since 1974. He is currently a consultant of Fan & Fan, Solicitors. Mr. Fan is also a director of Chinney Investments Limited and a non-executive director of Alltronics Holdings Limited since 1987 and 2005 respectively. Both of these companies are listed on the main board of the Stock Exchange. Mr. Fan graduated from Northwestern University in 1964 with a Degree of Bachelor of Arts and from the University of Edinburgh in 1967 with a Bachelor degree in Laws.

## Senior Management

**Mr. IP Wai Sum**, aged 51, is the general manager of our retail division. Mr. Ip joined the Group in August 2007 and is primarily responsible for the retail management and retail business development of the Group, in particular overseeing operations of our "Q'ggle" brand. Mr. Ip has over 20 years of experience in retail chain management in the PRC. Prior to joining of the Group, Mr. Ip worked as Group Deputy General Manager of the Mission Hills Group. Mr. Ip holds a Degree of Bachelor of Commerce from Concordia University in Canada.

**Ms. WOO Mei Sze, Macey**, aged 35, is the general manager of the CDM department which includes overseeing our export business and China business development. Ms. Woo joined in June 1998 and has over 12 years of experience in international business. Ms. Woo holds a high diploma in Business Study from the Business division of the City University of Hong Kong.

## COMPANY SECRETARY

**Mr. LO Wah Wai**, aged 46, has been appointed as the Company Secretary of the Company since 14 January 2009. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over 20 years of experience in the accounting and finance industry.

# Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the Year.

## PRINCIPAL PLACE OF BUSINESS

The Company is a limited liability company incorporated in Bermuda and domiciled in Hong Kong and its principal place of business is Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Hong Kong.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are design, manufacturing, retailing and distribution and CDM of fashion accessories. The principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the Year are set out in note 13 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 19.2% (2009: 17.2%) of the total sales. The top five suppliers accounted for approximately 26.5% (2009: 33.7%) of the total purchases for the Year. In addition, the Group's largest customer accounted for approximately 5.2% (2009: 6.7%) of the total sales and the Group's largest supplier accounted for approximately 14.0% (2009: 12.3%) of the total purchases for the Year.

At no time during the Year have the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Significant related party transactions entered into by the Group during the Year, which do not constitute connected transactions or continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are disclosed in note 34 to the financial statements.

## FINANCIAL STATEMENTS

The loss of the Group for the Year and the state of the Company's and the Group's affairs as at 31 March 2010 are set out in the financial statements on pages 53 to 128.

## TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividends, of HK$100,449,000 (2009: HK$140,529,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

The Directors do not recommend the payment of a final dividend for the Year (2009: HK$Nil).

## CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to HK$20,000 (2009: HK$1,543,000).

# Report of the Directors

## FIXED ASSETS

Details of movements in fixed assets during the Year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 29(c) to the financial statements.

## DIRECTORS

The Directors during the Year and up to the date of this report are:

### Executive Directors

Mr. Tse Chiu Kwan
Ms. Ho Pui Yin, Jenny (resigned on 26 May 2010)
Mr. Xie Hai Hui (resigned on 28 August 2009)
Mr. Lin Shao Hua (appointed on 17 July 2009)
Mr. Lau Yau Chuen, Louis (appointed on 26 May 2010)

### Non-executive Director

Ms. Yip Ying Kam (re-designated from executive Director to non-executive Director on 17 July 2009)

### Independent Non-executive Directors

Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence
Mr. Fan William Chung Yue

Pursuant to Bye-law 87 of the bye-laws of the Company (the "Bye-laws"), at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Bye-law 87 of the Bye-laws, Mr. Lau Fai Lawrence and Mr. Fan William Chung Yue will retire from office by rotation and by virtue of Bye-law 86 of the Bye-laws, Mr. Lau Yau Chuen, Louis shall hold office until the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election at the AGM.

Details of the Directors' service contracts and appointment letters are described in the "Corporate Governance Report" on page 43.

Save as disclosed above, none of the Directors proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2010, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

### Long positions in ordinary shares of HK$0.10 each of the Company

| Name of Directors | Company in which interests are disclosed | Capacity | Number of issued ordinary shares held | Number of shares subject to options granted | Percentage of the issued share capital as at 31 March 2010 |
|---|---|---|---|---|---|
| Tse Chiu Kwan | The Company | Corporate interest | 648,088,000 *(Note 1)* | — | 58.04% |
| | | Beneficial interest | — | 5,935,000 *(Note 2)* | 0.53% |
| Ho Pui Yin, Jenny (resigned on 26 May 2010) | The Company | Beneficial interest | — | 9,950,000 *(Note 2)* | 0.89% |
| Lin Shao Hua | The Company | Beneficial interest | — | 9,600,000 *(Note 2)* | 0.86% |
| Yip Ying Kam | The Company | Corporate interest | 72,000,000 *(Note 3)* | — | 6.45% |
| | | Beneficial interest | — | 9,950,000 *(Note 2)* | 0.89% |
| Chan Man Tuen, Irene | The Company | Beneficial interest | — | 200,000 *(Note 2)* | 0.02% |
| Fan William Chung Yue | The Company | Beneficial interest | — | 200,000 *(Note 2)* | 0.02% |
| Lau Fai Lawrence | The Company | Beneficial interest | — | 200,000 *(Note 2)* | 0.02% |
| Tse Chiu Kwan | Fully Gain Company Ltd. | Beneficial interest | 1 | — | 100% |

# Report of the Directors

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

### Long positions in ordinary shares of HK$0.10 each of the Company (continued)

*Notes:*

1. These shares are held by Fully Gain Company Ltd., an associated corporation of the Company, which is wholly and beneficially owned by Mr. Tse Chiu Kwan.

2. These options were granted by the Company under the pre-listing share option scheme (the "Pre-IPO Scheme") or the share option scheme (the "Share Option Scheme") both adopted by the Company on 23 April 2008.

3. These shares are held by Excellent Gain International Holdings Limited which is wholly and beneficially owned by Ms. Yip Ying Kam.

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

## DIRECTORS' RIGHT TO ACQUIRE SHARES

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

## PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Scheme on 23 April 2008. The purpose of the Pre-IPO Scheme is to give the participants (directors and employees of the Group) an opportunity to have a personal stake in the Company and to motivate the participants to optimise their performance and efficiency as well as to attract and retain participants whose contributions are important to the long-term growth and profitability of the Group.

An offer of Pre-IPO share options is deemed to be accepted when the Company receives the offer letter signed by the participant specifying the number of shares of the Company in respect of which the offer is accepted, and a remittance to the Company of HK$1.00 as consideration for the grant of the Pre-IPO share options. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant. The subscription price per share was 85% of the offer price per share at the initial public offering of the Company.

## PRE-IPO SHARE OPTION SCHEME (continued)

All holders of options granted under the Pre-IPO Scheme may only exercise their options in the following manners during an option period of 3 years from the date of listing of the Company (the "Listing Date") on the Stock Exchange, i.e. 16 May 2008:

| Period of exercise of the relevant percentage of the option | Maximum percentage of options exercisable |
|---|---|
| A period of twelve months commencing on the Listing Date | 30% of the total number of options granted under the Pre-IPO Scheme |
| A period of twelve months commencing on the first anniversary date of the Listing Date | 30% of the total number of options granted under the Pre-IPO Scheme |
| A period of twelve months commencing on the second anniversary date of the Listing Date | 40% of the total number of options granted under the Pre-IPO Scheme |

Any options that are not exercised on or before each of the exercise periods mentioned above shall lapse. No further option has been granted or will be granted under the Pre-IPO Scheme after the Listing Date.

Further details of principal terms of the Pre-IPO Scheme are set out in the prospectus of the Company dated 2 May 2008. Details of the share options movements during the Year under the Pre-IPO Scheme are as follows:

| | | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of category | Date of grant of share options | Outstanding at 01.04.2009 | Granted during the Year | Exercised during the Year | Lapsed during the Year | Cancelled during the Year | Outstanding at 31.03.2010 | Validity period of share options | Exercise price (HK$) |
| **Directors** | | | | | | | | | |
| Tse Chiu Kwan | 02.05.2008 | 1,515,000 | — | — | 1,515,000 | — | — | 16.05.2008–15.05.2009 | 1.887 |
| | 02.05.2008 | 1,515,000 | — | — | — | — | 1,515,000 | 16.05.2009–15.05.2010 | 1.887 |
| | 02.05.2008 | 2,020,000 | — | — | — | — | 2,020,000 | 16.05.2010–15.05.2011 | 1.887 |
| Yip Ying Kam | 02.05.2008 | 450,000 | — | — | 450,000 | — | — | 16.05.2008–15.05.2009 | 1.887 |
| | 02.05.2008 | 450,000 | — | — | — | — | 450,000 | 16.05.2009–15.05.2010 | 1.887 |
| | 02.05.2008 | 600,000 | — | — | — | — | 600,000 | 16.05.2010–15.05.2011 | 1.887 |
| Ho Pui Yin, Jenny | 02.05.2008 | 150,000 | — | — | 150,000 | — | — | 16.05.2008–15.05.2009 | 1.887 |
| (resigned on | 02.05.2008 | 150,000 | — | — | — | — | 150,000 | 16.05.2009–15.05.2010 | 1.887 |
| 26 May 2010) *(Note)* | 02.05.2008 | 200,000 | — | — | — | — | 200,000 | 16.05.2010–15.05.2011 | 1.887 |
| Subtotal | | 7,050,000 | — | — | 2,115,000 | — | 4,935,000 | | |
| **Other Employees** | | | | | | | | | |
| In aggregate | 02.05.2008 | 420,000 | — | — | 420,000 | — | — | 16.05.2008–15.05.2009 | 1.887 |
| | 02.05.2008 | 420,000 | — | — | 30,000 | — | 390,000 | 16.05.2009–15.05.2010 | 1.887 |
| | 02.05.2008 | 560,000 | — | — | 40,000 | — | 520,000 | 16.05.2010–15.05.2011 | 1.887 |
| Subtotal | | 1,400,000 | — | — | 490,000 | — | 910,000 | | |
| **Total** | | **8,450,000** | **—** | **—** | **2,605,000** | **—** | **5,845,000** | | |

*Note:* As at the date of this report, all outstanding share options granted to Ms. Ho Pui Yin, Jenny under the Pre-IPO Scheme have lapsed.

# Report of the Directors

## SHARE OPTION SCHEME

The Company also adopted the Share Option Scheme on 23 April 2008. The purpose of the Share Option Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing value of the Company and the shares for the benefit of the Company and the Shareholders as a whole.

Participants under the Share Option Scheme include Directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any member of the Group.

The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 23 April 2008 and will remain in force until 22 April 2018. The Company may, by ordinary resolution in general meeting or, such date as the Board shall determine, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant. The exercise period of any option granted under the Share Option Scheme must not be more than ten years commencing on the date of grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares of the Company in issue on the Listing Date.

The maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Share Option Scheme and any other share option schemes must not in aggregate exceed 30% of the shares of the Company in issue from time to time. As at the date of this report, a total of 99,600,000 share options have been granted under the Share Option Scheme and the outstanding number of options available for issue under the aforesaid 10% limit of the Share Option Scheme is 133,800, representing approximately 0.01% of the issued share capital of the Company. Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes of the Company will not be counted for the purpose of calculating the 10% limit.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its Shareholders in accordance with the Share Option Scheme.

## SHARE OPTION SCHEME (continued)

Details of the share options movements during the Year under the Share Option Scheme are as follows:

| Name of category | Date of grant of share options | Number of share options: Outstanding at 01.04.2009 | Granted during the Year | Exercised during the Year | Lapsed during the Year | Cancelled during the Year | Outstanding at 31.03.2010 | Validity period of share options | Exercise price (HK$) |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Tse Chiu Kwan | 27.07.2009 *(Note 1)* | — | 2,400,000 | — | — | — | 2,400,000 | 27.07.2009–26.07.2011 | 0.830 |
| Yip Ying Kam | 27.07.2009 | — | 8,900,000 | — | — | — | 8,900,000 | 27.07.2009–26.07.2011 | 0.830 |
| Ho Pui Yin, Jenny (resigned on 26 May 2010) *(Note 2)* | 27.07.2009 | — | 9,600,000 | — | — | — | 9,600,000 | 27.07.2009–26.07.2011 | 0.830 |
| Lin Shao Hua | 27.07.2009 | — | 9,600,000 | — | — | — | 9,600,000 | 27.07.2009–26.07.2011 | 0.830 |
| Chan Man Tuen, Irene | 27.07.2009 | — | 200,000 | — | — | — | 200,000 | 27.07.2009–26.07.2011 | 0.830 |
| Fan William Chung Yue | 27.07.2009 | — | 200,000 | — | — | — | 200,000 | 27.07.2009–26.07.2011 | 0.830 |
| Lau Fai Lawrence | 27.07.2009 | — | 200,000 | — | — | — | 200,000 | 27.07.2009–26.07.2011 | 0.830 |
| Subtotal | | — | 31,100,000 | — | — | — | 31,100,000 | | |
| **Advisors and Consultants** | | | | | | | | | |
| In aggregate | 27.07.2009 | — | 33,300,000 | 4,000,000 | — | — | 29,300,000 | 27.07.2009–26.07.2011 | 0.830 |
| | 20.10.2009 *(Note 3)* | — | 60,500,000 | 30,250,000 | — | — | 30,250,000 | 20.10.2009–19.10.2011 *(Note 5)* | 0.680 |
| **Other Employees** | | | | | | | | | |
| In aggregate | 27.03.2009 | 5,500,000 | — | 5,200,000 | 300,000 | — | — | 27.03.2009–26.03.2019 | 0.371 |
| | 27.07.2009 | — | 21,100,000 | 300,000 | 1,700,000 | — | 19,100,000 | 27.07.2009–26.07.2011 *(Note 6)* | 0.830 |
| | 20.10.2009 | — | 39,100,000 | 14,550,000 | 5,000,000 | — | 19,550,000 | 20.10.2009–19.10.2011 *(Note 5)* | 0.680 |
| Subtotal | | 5,500,000 | 154,000,000 | 54,300,000 | 7,000,000 | — | 98,200,000 | | |
| **Total** | | **5,500,000** | **185,100,000** *(Note 4)* | **54,300,000** | **7,000,000** | **—** | **129,300,000** | | |

*Notes:*

1. The closing price immediately before the date of grant was HK$0.840.
2. As at the date of this report, 9,600,000 share options granted under the Share Option Scheme remained exercisable by Ms. Ho Pui Yin, Jenny.
3. The closing price immediately before the date of grant was HK$0.670.
4. These 185,100,000 share options include a portion of 85,500,000 share options which were granted on 27 July 2009 at a total number of 85,700,000 share options but only 85,500,000 share options were accepted.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

*Notes:* (continued)

5. A maximum of 50% of the total number of share options granted to the grantees may be exercisable between 20 October 2009 and 19 January 2010. The remaining number of share options granted to the grantees may be exercisable between 20 January 2010 and 19 October 2011.

6. A maximum of 50% of the total number of share options granted to these grantees on 27 July 2009 may be exercisable between 27 July 2009 and 26 July 2010. The remaining 50% of the total number of share options granted to these grantees may be exercisable between 27 July 2010 and 26 July 2011.

   In respect of employees of the Company who had not joined the Company for a full year on 27 July 2009, the validity periods of the share options granted to them on 27 July 2009 will commence on the date they have been employed by the Company for one full year (the "Starting Date"). A maximum of 50% of the total number of share options granted to these grantees may be exercisable during the 12 months commencing on the Starting Date. The remaining 50% of the total number of share options granted to these grantees may be exercisable during the 12 months commencing on the first anniversary of the Starting Date.

Information on the accounting policy for share options granted and the weighted average value per share is provided in notes 2(r)(ii), 2(s) and 27 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2010, to the best knowledge of the Directors, the following person (other than a Director and chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in ordinary shares of HK$0.10 each of the Company

| Name of shareholders | Capacity | Nature of issued ordinary shares/ underlying shares held | Percentage of the issued share capital as at 31 March 2010 |
|---|---|---|---|
| Fully Gain Company Ltd. *(Note 1)* | Beneficial interest | 648,088,000 | 58.04% |
| Excellent Gain International Holdings Limited *(Note 2)* | Beneficial interest | 72,000,000 | 6.45% |

*Notes:*

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

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

Save as disclosed above, as at 31 March 2010, no person, other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had any interest or short positions in the shares, underlying shares or debentures of the Company which are required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company had maintained the public float as required under the Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the Year or at any time during the Year under review.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at the balance sheet date are set out in notes 23 to 25 to the financial statements.

## FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 9 of this annual report.

## RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 26 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year, except for the issue of 54,300,000 shares of the Company under the share option schemes and the placing of 70,000,000 new ordinary shares to investors in late December 2009 as set out below.

## FUND RAISING ACTIVITIES

For the purpose of strengthening the capital base raising funds for further development of the Group, the Group completed the following fund raising activities during the Year under review and after the reporting period:

(a) On 15 December 2009, the Company and Fordjoy Securities and Futures Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a fully underwritten basis, a total of 70,000,000 ordinary shares of HK$0.10 each (with an aggregate nominal value of HK$7,000,000) to certain independent placees at a price of HK$0.78 per placing share (the "Placing"). The closing price of the shares was HK$0.91 on 15 December 2009. The completion of the Placing took place on 28 December 2009 and a total of 70,000,000 placing shares were issued. The net price per share is approximately HK$0.753 and net proceeds of approximately HK$52.7 million were raised and as at 31 March 2010, it had been fully utilised to further develop the Group's retail business.

    Details of the Placing have been published on the Company's announcements dated 15 December 2009 and 28 December 2009.

# Report of the Directors

## FUND RAISING ACTIVITIES (continued)

(b) On 15 January 2010, the Company and Standard Bank Plc (the "Subscriber") entered into a subscription agreement pursuant to which the Subscriber has agreed to subscribe for the convertible bonds in the principal amount of HK$20,000,000 (the "First Lot CB").

On 1 April 2010, the Company and the Subscriber entered into a second subscription agreement pursuant to which the Subscriber has agreed to subscribe for the convertible bonds in the principal amount of HK$20,000,000 (the "Second Lot CB").

The conversion price of the First Lot CB and the Second Lot CB will be reset each day at an amount equal to the higher of: (a) 90% of the closing price of the shares, as quoted on the Stock Exchange, on the immediately preceding trading day; and (b) the minimum conversion price of the First Lot CB and the Second Lot CB respectively (the minimum conversion prices of the First Lot CB and the Second Lot CB are HK$1.073 and HK$0.733 respectively).

The completion of the First Lot CB and the Second Lot CB took place on 22 January 2010 and 13 April 2010 respectively. The net proceeds from the issue of the First Lot CB were approximately HK$18,031,000, which was intended to be used as general working capital of the Group. The net proceeds from the issue of the Second Lot CB were approximately HK$18,844,000 which was also intended to be used as general working capital of the Group, subject to the second subscription agreement and certain account charge.

Up to 17 May 2010, an aggregate principal amount of HK$16,000,000 of the Second Lot CB has been converted into 19,441,323 shares. On 2 June 2010, the Company has redeemed all of the First Lot CB and the remaining Second Lot CB (at an aggregate principal amount of HK$20,000,000 and HK$4,000,000 respectively). The remaining net proceeds after the redemption on 2 June 2010 is approximately HK$14,844,000, which will be utilised as intended.

Details of the First Lot CB and the Second Lot CB have been published on the Company's announcements dated 15 January 2010, 22 January 2010, 1 April 2010, 13 April 2010 and 1 June 2010.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors or the management shareholders of the Company and their respective associates are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## AUDITORS

KPMG will retire at the AGM but they will not seek for re-appointment at the AGM.

By order of the Board
**Tse Chiu Kwan**
*Chairman*

Hong Kong, 29 July 2010

# Corporate Governance Report

## OVERVIEW

The Directors recognise 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 to the Shareholders as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices. This report outlines the principles and the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, which have been adopted by the Group.

In accordance with the requirements of the Listing Rules, the Company has established an audit committee with defined terms of reference to oversee the financial reporting procedures and internal controls of the Group during the Year. The Company has also established a nomination committee, a remuneration committee and an investment committee with defined terms of reference. The terms of reference of these Board committees are available upon request.

During the Year, save for the deviation as disclosed under the paragraph headed "Chairman and Chief Executive Officer" in this annual report, all code provisions set out in the Code were fulfilled by the Company.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the required standard 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 and its code of conduct regarding Directors' securities transactions throughout the Year.

## BOARD OF DIRECTORS

### Composition

As at 31 March 2010, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board during the Year was as follows:

**Executive Directors**

Mr. Tse Chiu Kwan (Chairman)
Mr. Xie Hai Hui (Chief Operation Officer) (resigned on 28 August 2009)
Ms. Ho Pui Yin, Jenny (Chief Operation Officer) (resigned on 26 May 2010)
Mr. Lin Shao Hua (appointed on 17 July 2009)

**Non-executive Director**

Ms. Yip Ying Kam (Vice Chairman) (re-designated from executive Director to non-executive Director on 17 July 2009)

# Corporate Governance Report

**Independent Non-executive Directors**
Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence
Mr. Fan William Chung Yue

Following the resignation of Ms. Ho Pui Yin, Jenny, Mr. Lau Yau Chuen, Louis was appointed as an executive Director on 26 May 2010.

The biographical details of all Directors are set out in pages 30 to 32 of this annual report. Save as disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experiences and expertises to the Company.

## Functions of the Board

The principal function of the Board is to consider and approve strategies, financial objectives, annual budget and investment proposals of the Group and to assume the responsibilities of corporate governance of the Group. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

## Board Meetings and Board Practices

The Company adopted the practice of holding Board meetings for executive Directors regularly throughout the Year and at least four meetings a year for both executive and non-executive Directors. The Board will also meet on other occasions when a board-level decision on a particular matter is required. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, at least 14 days notice would be given for the regular meeting by the Company. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring that the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail the matters considered by the Board and decisions reached.

Throughout the Year, 16 Board meetings were held. Details of the attendance of Directors are as follows:

| Name of the Directors | Directors' Attendance |
|---|---|
| **Executive Directors** | |
| Mr. Tse Chiu Kwan | 16/16 |
| Mr. Lin Shao Hua (appointed on 17 July 2009) | 10/12 |
| Ms. Ho Pui Yin, Jenny (resigned on 26 May 2010) | 14/16 |
| Mr. Xie Hai Hui (resigned on 28 August 2009) | 0/6 |
| **Non-executive Director** | |
| Ms. Yip Ying Kam (re-designated from executive Director to non-executive Director on 17 July 2009) | 13/16 |
| **Independent Non-executive Directors** | |
| Ms. Chan Man Tuen, Irene | 12/16 |
| Mr. Fan William Chung Yue | 13/16 |
| Mr. Lau Fai Lawrence | 13/16 |

## Directors' Appointment, Re-election and Removal

Mr. Tse Chiu Kwan and Ms. Ho Pui Yin, Jenny have entered into a service contract with the Company for an initial term of 3 years both commencing from 16 May 2008 and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Lin Shao Hua has entered into a service contract with the Company for an initial term of 3 years commencing from 17 July 2009 and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

Mr. Lau Yau Chuen, Louis has entered into a service contract with the Company but he is not appointed for a specific term but may be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than 3 months' prior written notice. He will hold office until the AGM and will retire at the AGM but will be eligible for re-election pursuant to the Bye-laws.

Ms. Yip Ying Kam was re-designated as a non-executive Director on 17 July 2009 and she has entered into a new service contract with the Company for an initial term of 3 years commencing from 17 July 2009 which may only be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than 3 months' prior written notice.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year commencing from 1 September 2009, subject to termination by either party giving the other not less than 3 months' prior written notice or such shorter period as both parties may agree. The appointment letters of Mr. Lau Fai Lawrence and Mr. Fan William Chung Yue have been renewed for a term of one year expiring on 31 August 2011.

# Corporate Governance Report

In accordance with the Bye-Laws, all Directors (including executive Directors, non-executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every 3 years.

## Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing more than one-third of the Board. Among the three independent non-executive Directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Ms. Chan Man Tuen, Irene, Mr. Lau Fai Lawrence and Mr. Fan William Chung Yue independent.

## Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer (the "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.

The Company has not appointed a CEO during the Year under review. The overall management of the Company was performed by Mr. Tse Chiu Kwan, Mr. Lin Shao Hua and Ms. Ho Pui Yin, Jenny (resigned on 26 May 2010) and all are executive Directors who have extensive experience in the jewellery industry. Their respective areas of profession spearheaded 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.

## Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

# BOARD COMMITTEES

## Audit Committee

*Composition*

The audit committee of the Company (the "Audit Committee") was established on 23 April 2008 with written terms of reference in compliance with the Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group.

The Audit Committee has reviewed the Group's consolidated financial statements for the Year and the interim financial report for the six months ended 30 September 2009, including the accounting principles and practice adopted by the Group.

During the Year, the Audit Committee had performed their primary duties to review and supervise the financial reporting process and the internal control procedures of the Company and had also held meetings with the Company's auditors, KPMG, to discuss the auditing, internal controls and financial reporting matters of the Company.

Details of the members' attendance of the Audit Committee meetings are as follows:

| Name of the Members | Members' Attendance |
|---|---|
| Mr. Lau Fai Lawrence | 2/2 |
| Ms. Chan Man Tuen, Irene | 2/2 |
| Mr. Fan William Chung Yue | 2/2 |

## Remuneration Committee

*Composition*

The remuneration committee of the Company (the "Remuneration Committee") was established on 23 April 2008 with written terms of reference in compliance with the Code. The Remuneration Committee comprises four members, namely Mr. Fan William Chung Yue (Chairman), Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene and Mr. Lau Fai Lawrence, the majority of which are independent non-executive Directors.

The primary functions of the Remuneration Committee are to make recommendations to the Board on remuneration of Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management.

Details of the members' attendance of the Remuneration Committee meetings are as follows:

| Name of the Members | Members' Attendance |
|---|---|
| Mr. Fan William Chung Yue | 2/2 |
| Mr. Tse Chiu Kwan | 2/2 |
| Ms. Chan Man Tuen, Irene | 2/2 |
| Mr. Lau Fai Lawrence | 2/2 |

# Corporate Governance Report

During the Year, two Remuneration Committee meetings were held to review the remuneration packages of all Directors and senior management and to determine the remuneration of the newly appointed Directors.

*Remuneration Policy for Directors and Senior Management*

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee.

The Company has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme both on 23 April 2008. The purpose of these share option schemes is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimise their performance and efficiency for the benefit of the Group.

## Nomination Committee

*Composition*

The nomination committee of the Company (the "Nomination Committee") was established on 23 April 2008 with written terms of reference in compliance with the Code. The Nomination Committee currently comprises four members, namely Mr. Lau Fai Lawrence (Chairman), Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue, the majority of which are independent non-executive Directors.

The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

Details of the members' attendance of the Nomination Committee meetings are as follows:

| Name of the Members | Members' Attendance |
|---|---|
| Mr. Lau Fai Lawrence | 2/2 |
| Mr. Tse Chiu Kwan | 2/2 |
| Ms. Chan Man Tuen, Irene | 2/2 |
| Mr. Fan William Chung Yue | 2/2 |

During the Year under review, the Nomination Committee held two meetings to review the composition, size and structure of the Board and to determine the appointment of the Directors and senior management of the Company.

## Investment Committee

By a resolution of the Board passed on 17 July 2009, the Board had resolved to establish an investment committee (the "Investment Committee"). The members of the Investment Committee comprises Mr. Tse Chiu Kwan (Chairman), Mr. Lin Shao Hua and Mr. Lau Yau Chuen, Louis (Ms. Ho Pui Yin, Jenny who was a member of the Investment Committee resigned on 26 May 2010 and Mr. Lau Yau Chuen, Louis was appointed as a member of the Investment Committee on the same day). 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.

# ACCOUNTABILITY AND AUDIT

## Directors' and Auditors' Responsibilities for the Financial Statements

The Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the Year, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The reporting responsibility of the external auditors of the Company on the financial statements of the Company for the Year are set out in the Independent Auditor's Report.

Messrs. Deloitte Touche Tohmatsu was appointed as external taxation advisor for the Year.

## Auditors' Remuneration

During the Year, the remuneration paid or payable to the Company's auditors, KPMG, in respect of its audit and non-audit services were as follows:

| **Type of Services** | HK$'000 |
|---|---|
| Audit services | 2,169 |
| Non-audit services | — |
| Total | 2,169 |

# Corporate Governance Report

## INTERNAL CONTROL

The Company has prepared an internal control report, covering all material controls, including financial and operation for the Year. The said internal control report compiled by the Company has been brought to the attention of the Board and the Audit Committee. The Board, having reviewed the effectiveness of the internal control system, concluded that the Group needs to further improve its internal control system.

The Company has established the internal control department to provide day-to-day management of the compliance and control of the Group and report to the Board on control and compliance matters. The internal control department is currently headed by Mr. Lau Yau Chuen, Louis, an executive Director since 26 May 2010, as Ms. Yip Ying Kam, the previous chairman of the internal control department, was re-designated to a non-executive Director, and they report directly to the Board. The primary responsibilities of the internal control department include reviewing of internal control system and monitoring the compliance of the daily operating activities within the Group. In addition, it will carry out assessment in relation to the establishment of new company or entity and new products of the Group.

In light of the matters qualified by the Company's auditors, KPMG, in their opinion on the financial statements for the year ended 31 March 2010, the Board has established a committee comprising all of our independent non-executive Directors, and Mr. Lau Yau Chuen, Louis who since 26 May 2010 was appointed as one of our Directors and has been in charge of our internal control department. The committee's scope is to look into items in the temporary payment account of the Company, internal controls relating to the Group's procedures for entering into commitments and documentary records and report their findings to the Board, including recommendations for improvements in internal controls and their subsequent implementation (to the extent appropriate). For this purpose, the Board will appoint SHINEWING Risk Services Limited to be the Company's consultant in reviewing the internal control system of the Company and to assist in this regard.

## INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors. The Board also recognises that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at www.artini-china.com. The Board continues to maintain regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the committee members are available to answer questions at annual general meetings. Separate resolutions would be proposed at general meetings on each substantially separate issue.

### Shareholders' Right

The Company shall adhere to the amendments to the Listing Rules effective from 1 January 2009 such that all votes of the Shareholders at general meetings will be taken by poll. The results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

The Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

# Independent Auditor's Report

KPMG

**Independent auditor's report to the shareholders of**
**Artini China Co. Ltd.**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Artini China Co. Ltd. (the "Company") set out on pages 53 to 128, which comprise the consolidated and Company balance sheets as at 31 March 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report (Cont'd)

## BASIS FOR QUALIFIED OPINION

During the course of our audit of the consolidated financial statements for the year ended 31 March 2010, it came to our attention that payments amounting to HK$76.7 million and receipts amounting to HK$66.4 million as recorded in the temporary payment accounts of certain companies of the Group were not substantiated with relevant supporting documents. The outstanding receivable balances relating to these transactions amounted to HK$10.3 million as at 31 March 2010 as disclosed in note 20 to the consolidated financial statements included as "trade and other receivables". There is insufficient evidence available to us to ascertain the validity of the recorded transactions and balances related to the temporary payment accounts. We are therefore unable to satisfy ourselves that these transactions were properly accounted for and disclosed or that the outstanding amounts receivable were recoverable.

Further, as stated in note 20(c) to the consolidated financial statements, deposits for acquisition of businesses amounted to HK$37.6 million as at 31 March 2010. The directors considered that the Group is able to recover the deposits paid either in the way of refund or as part of the business acquisition considerations. However, we were unable to obtain sufficient documentation to evaluate the recoverability of these deposits paid. Accordingly, we were unable to satisfy ourselves that the above-mentioned deposits were fairly stated as at 31 March 2010.

Any consequential effect in connection with the above matters would affect the net assets of the Company and the Group as at 31 March 2010 and the Group's net loss for the year ended 31 March 2010, and the related disclosures in the financial statements.

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying amounts of the above-mentioned deposits and other receivables as at 31 March 2010, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 July 2010

# Consolidated Income Statement

for the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Turnover** | *4, 13* | **366,119** | 564,101 |
| Cost of sales | | **(190,342)** | (326,493) |
| **Gross profit** | | **175,777** | 237,608 |
| Other revenue | *5* | **2,850** | 5,504 |
| Other net loss | *5* | **(1,794)** | (122) |
| Selling and distribution costs | | **(210,192)** | (302,985) |
| Administrative expenses | | **(55,939)** | (54,336) |
| Other operating expenses | | **(9,185)** | (23,310) |
| **Loss from operations** | | **(98,483)** | (137,641) |
| Finance costs | *6(a)* | **(1,256)** | (1,022) |
| Share of loss of an associate | | **(88)** | — |
| **Loss before taxation** | *6* | **(99,827)** | (138,663) |
| Income tax | *7(a)* | **(622)** | (1,866) |
| **Loss attributable to equity shareholders of the Company** | | **(100,449)** | (140,529) |
| **Loss per share (HK$)** | *12* | | |
| Basic and diluted | | **(0.098)** | (0.145) |

The notes on pages 61 to 128 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

for the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | *Note* | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Loss for the year** | | **(100,449)** | (140,529) |
| **Other comprehensive income for the year** | *11* | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | | **778** | 1,408 |
| **Total comprehensive income for the year** | | **(99,671)** | (139,121) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(99,671)** | (139,121) |

The notes on pages 61 to 128 form part of these financial statements.

# Consolidated Balance Sheet

as at 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | *14* | | |
| — Investment property | | **3,492** | 3,766 |
| — Property, plant and equipment | | **74,773** | 66,803 |
| — Interests in leasehold land held for own use under operating leases | | **20,090** | 20,962 |
| Intangible assets | *15* | **2,935** | 6,311 |
| Interest in an associate | *17* | **410** | — |
| Rental deposits | | **7,993** | 13,095 |
| Deferred tax assets | *28(b)* | **11,263** | 10,146 |
| | | **120,956** | 121,083 |
| **Current assets** | | | |
| Trading securities | *18* | **21,126** | — |
| Inventories | *19* | **70,311** | 56,327 |
| Trade and other receivables | *20* | **141,735** | 57,956 |
| Current tax recoverable | *28(a)* | **964** | 1,477 |
| Cash and cash equivalents | *21* | **191,431** | 277,897 |
| | | **425,567** | 393,657 |
| **Current liabilities** | | | |
| Trade and other payables | *22* | **61,486** | 49,501 |
| Convertible bonds | *23* | **15,620** | — |
| Embedded financial derivatives | *23* | **2,644** | — |
| Bank loans | *24* | **—** | 420 |
| Obligations under finance leases | *25* | **233** | 181 |
| Current tax payable | *28(a)* | **1,458** | 1,083 |
| | | **81,441** | 51,185 |
| **Net current assets** | | **344,126** | 342,472 |
| **Total assets less current liabilities** | | **465,082** | 463,555 |

# Consolidated Balance Sheet (Cont'd)

as at 31 March 2010
(Expressed in Hong Kong dollars)

| | *Note* | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Obligations under finance leases | *25* | **231** | — |
| Deferred tax liabilities | *28(b)* | **1,659** | 2,030 |
| | | **1,890** | 2,030 |
| **NET ASSETS** | | **463,192** | 461,525 |
| **CAPITAL AND RESERVES** | *29* | | |
| Share capital | | **111,654** | 99,224 |
| Reserves | | **351,538** | 362,301 |
| **TOTAL EQUITY** | | **463,192** | 461,525 |

Approved and authorised for issue by the board of directors on 29 July 2010.

**Tse Chiu Kwan**
*Director*

**Lau Yau Chuen, Louis**
*Director*

The notes on pages 61 to 128 form part of these financial statements.

# Balance Sheet

as at 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | *16* | **407,378** | 573,836 |
| **Current assets** | | | |
| Trading securities | *18* | **21,126** | — |
| Deposits, prepayments and other receivables | *20* | **41,287** | 395 |
| Cash and cash equivalents | *21* | **40,604** | 30,267 |
| | | **103,017** | 30,662 |
| **Current liabilities** | | | |
| Accrued charges and other payables | *22* | **27,142** | 3,216 |
| Convertible bonds | *23* | **15,620** | — |
| Embedded financial derivatives | *23* | **2,644** | — |
| | | **45,406** | 3,216 |
| **Net current assets** | | **57,611** | 27,446 |
| **NET ASSETS** | | **464,989** | 601,282 |
| **CAPITAL AND RESERVES** | *29* | | |
| Share capital | | **111,654** | 99,224 |
| Reserves | | **353,335** | 502,058 |
| **TOTAL EQUITY** | | **464,989** | 601,282 |

Approved and authorised for issue by the board of directors on 29 July 2010.

**Tse Chiu Kwan**
*Director*

**Lau Yau Chuen, Louis**
*Director*

The notes on pages 61 to 128 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | Share capital (note 29(c)(i)) HK$'000 | Share premium (note 29(d)(i)) HK$'000 | Other reserve (note 29(d)(iii)) HK$'000 | Translation reserve (note 29(d)(iv)) HK$'000 | PRC statutory reserves (note 29(d)(v)) HK$'000 | Share-based capital reserve (note 29(d)(vi)) HK$'000 | Legal reserve (note 29(d)(vii)) HK$'000 | Retained earnings/ (accumulated losses) HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2008 | | 385 | — | — | 15,078 | 15,800 | — | 97 | 123,002 | 154,362 |
| Arising from reorganisation | | (385) | — | 385 | — | — | — | — | — | — |
| Capitalisation issue | *29(c)(i)* | 55,000 | (55,000) | — | — | — | — | — | — | — |
| Shares issued under the placing and global offering | *29(c)(i)* | 25,000 | 530,000 | — | — | — | — | — | — | 555,000 |
| Issue of shares | *29(c)(i)* | 20,000 | — | (20,000) | — | — | — | — | — | — |
| Share issuance costs | *29(c)(i)* | — | (71,819) | — | — | — | — | — | — | (71,819) |
| Equity-settled share-based transactions | | — | — | — | — | — | 6,869 | — | — | 6,869 |
| Repurchases of own shares | | | | | | | | | | |
| — par value paid | *29(c)(i),(ii)* | (776) | — | — | — | — | — | — | — | (776) |
| — premium paid | *29(c)(ii)* | — | (2,990) | — | — | — | — | — | — | (2,990) |
| Dividend paid | *29(b)* | — | — | — | — | — | — | — | (40,000) | (40,000) |
| Appropriation to reserves | | — | — | — | — | 5,531 | — | — | (5,531) | — |
| Total comprehensive income for the year | | — | — | — | 1,408 | — | — | — | (140,529) | (139,121) |
| At 31 March 2009 | | 99,224 | 400,191 | (19,615) | 16,486 | 21,331 | 6,869 | 97 | (63,058) | 461,525 |
| At 1 April 2009 | | **99,224** | **400,191** | **(19,615)** | **16,486** | **21,331** | **6,869** | **97** | **(63,058)** | **461,525** |
| Issue of shares under share placement | *29(c)(i)* | **7,000** | **47,600** | **—** | **—** | **—** | **—** | **—** | **—** | **54,600** |
| Share issuance costs | *29(c)(i)* | **—** | **(1,911)** | **—** | **—** | **—** | **—** | **—** | **—** | **(1,911)** |
| Equity-settled share-based transactions | | **—** | **—** | **—** | **—** | **—** | **10,118** | **—** | **2,569** | **12,687** |
| Shares issued under share option schemes | *29(c)(i)* | **5,430** | **32,347** | **—** | **—** | **—** | **(1,815)** | **—** | **—** | **35,962** |
| Appropriation to reserves | | **—** | **—** | **—** | **—** | **424** | **—** | **—** | **(424)** | **—** |
| Total comprehensive income for the year | | **—** | **—** | **—** | **778** | **—** | **—** | **—** | **(100,449)** | **(99,671)** |
| At 31 March 2010 | | **111,654** | **478,227** | **(19,615)** | **17,264** | **21,755** | **15,172** | **97** | **(161,362)** | **463,192** |

The notes on pages 61 to 128 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | **(99,827)** | (138,663) |
| Adjustments for: | | | |
| — Depreciation | 6(c) | **21,505** | 33,154 |
| — Finance costs | 6(a) | **1,256** | 1,022 |
| — Interest income | 5 | **(1,078)** | (3,980) |
| — Dividend income | 5 | **(120)** | — |
| — Net gain on disposal of property, plant and equipment | 5 | **(149)** | (12) |
| — Impairment loss on property, plant and equipment | 6(c) | **—** | 3,661 |
| — Amortisation of intangible assets | 6(c) | **3,391** | 1,044 |
| — Provision for onerous contracts | 6(c) | **2,094** | — |
| — Equity-settled share-based payment expenses | 6(c) | **12,687** | 6,869 |
| — Share of loss of an associate | 17 | **88** | — |
| — Net realised and unrealised losses on trading securities | 5 | **2,117** | — |
| — Net gain on change in fair value of embedded financial derivatives | 5 | **(1,009)** | — |
| — Foreign exchange loss/(gain) | | **7** | (811) |
| **Operating loss before changes in working capital** | | **(59,038)** | (97,716) |
| (Increase)/decrease in inventories | | **(13,984)** | 164 |
| (Increase)/decrease in trade and other receivables | | **(83,779)** | 39,816 |
| Increase/(decrease) in trade and other payables | | **9,891** | (5,857) |
| Decrease/(increase) in rental deposits | | **5,102** | (2,965) |
| **Cash used in operations** | | **(141,808)** | (66,558) |
| Tax paid | | | |
| — Hong Kong Profits Tax paid | | **(85)** | (7,530) |
| — PRC tax paid | | **(1,120)** | (13,964) |
| **Net cash used in operating activities** | | **(143,013)** | (88,052) |

# Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 March 2010
(Expressed in Hong Kong dollars)

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(27,703)** | (36,784) |
| Proceeds from disposal of property, plant and equipment | | **203** | 49 |
| Interest received | | **1,078** | 3,980 |
| Dividend received | | **120** | — |
| Payment for investment in an associate | | **(498)** | — |
| Payment for purchase of trading securities | | **(67,173)** | — |
| Proceeds from sale of trading securities | | **43,930** | — |
| Payment for purchase of intangible assets | | **—** | (6,748) |
| Changes in amount due from a director | | **—** | 55,373 |
| **Net cash (used in)/generated from investing activities** | | **(50,043)** | 15,870 |
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | **(199)** | (345) |
| Repayment of bank loans | | **(420)** | (121,627) |
| Proceeds from issue of new shares | | **88,651** | 483,181 |
| Interest element of finance lease rentals paid | | **(7)** | (26) |
| Other finance costs paid | | **(7)** | (996) |
| Payment for repurchase of shares | | **—** | (3,766) |
| Dividends paid to equity shareholders of the Company | | **—** | (39,997) |
| Changes in net amounts due to related parties | | **—** | (7,982) |
| Proceeds from issue of convertible bonds | | **20,000** | — |
| Payment of transaction costs on issue of convertible bonds | | **(1,969)** | — |
| **Net cash generated from financing activities** | | **106,049** | 308,442 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(87,007)** | 236,260 |
| **Cash and cash equivalents at 1 April** | *21* | **277,897** | 40,834 |
| **Effect of foreign exchange rate changes** | | **541** | 803 |
| **Cash and cash equivalents at 31 March** | *21* | **191,431** | 277,897 |

The notes on pages 61 to 128 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

### (a) Reporting entity

Artini China Co. Ltd. (the "Company") was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Bermuda Companies Act 1981. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008.

### (b) Reorganisation

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries now comprising the group (collectively referred to as the "Group") which was completed on 23 April 2008 to rationalise the group structure for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus dated 2 May 2008 issued by the Company.

### (c) Basis of presentation

The consolidated financial statements for the year ended 31 March 2010 comprise the Company and its subsidiaries and the Group's interest in an associate.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders (the "Controlling Shareholders") before and immediately after the Reorganisation, there was a continuation of the risks and benefits to the Controlling Shareholders. Accordingly, this is considered a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") has been applied. The consolidated financial statements for the year ended 31 March 2009 have been prepared by using the merger basis of accounting as if the Group had been in existence throughout the year presented. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective.

Accordingly, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year ended 31 March 2009 include the results of operations of the companies comprising the Group for the year ended 31 March 2009 (or where the companies were established/incorporated at a date later than 1 April 2008 for the period from the date of establishment/incorporation to 31 March 2009) as if the companies now comprising the Group had been in existence throughout the year presented.

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.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substances of the underlying events and circumstances relevant to the entity. The financial statements are presented in Hong Kong Dollars (HK$), rounded to the nearest thousand except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that trading securities (see note 2(e)) and derivative financial instruments (see note 2(f)) are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).

### (d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(k)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the policies set out in notes 2(v)(ii) and (v).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

### (g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)). Investment properties are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion. Any gain or loss arising from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(v)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(j).

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)):

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings, situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

| | |
|---|---|
| — Leasehold improvements | Remaining term of the lease |
| — Office equipment | 5–10 years |
| — Furniture and fixtures | 5 years |
| — Motor vehicles | 5 years |
| — Plant and machinery | 5–10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### *(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### *(iii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Impairment of assets

#### *(i) Impairment of investments in equity securities and trade and other receivables*

Investments in equity securities (other than investments in subsidiaries: see note 2(k)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates recognised using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Impairment of assets (continued)

#### *(i) Impairment of investments in equity securities and trade and other receivables (continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— intangible assets; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Impairment of assets (continued)

#### *(ii) Impairment of other assets (continued)*

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for doubtful debts (see note 2(k)).

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability component, which is recognised initially as part of the liability.

The derivative component is subsequently remeasured in accordance with note 2(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

### (o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the appropriate valuation techniques, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### *(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (s) Equity-settled share-based payment transactions

Share options granted to employees are recognised in accordance with note 2(r)(ii).

Share options granted to consultants and advisors in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding adjustment to the capital reserve, when the counterparties render services, unless the services qualify for recognition as assets. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (u) Financial guarantees issued, provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(u)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Financial guarantees issued, provisions and contingent liabilities (continued)

#### (ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (iii) *Provision for onerous contracts*

The lease contracts used by the Group are mostly lease contracts for the stores. The Group recognises a provision for onerous contract when the expected benefits to be received from the contract are less than the unavoidable costs of meeting the obligations under the contract.

### (v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### (i) *Sale of goods*

Revenue is recognised when goods are delivered to the customers' premises which is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and sales returns.

#### (ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

#### (iii) *Government subsidies*

Government subsidies are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

#### (iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Revenue recognition (continued)

#### *(v) Dividends*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (x) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

### (y) Store pre-operating costs

Operating costs (including store set-up, recruitment and training expenses) incurred prior to the operating of new stores are expensed as incurred and are included in selling and distribution costs.

### (z) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) Related parties (continued)

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 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:

— HKFRS 8, *Operating segments*

— HKAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to HKFRSs (2008)

— Improvements to HKFRSs (2009)

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— Amendments to HKAS 27, *Consolidated and separate financial instruments — cost of an investment in a subsidiary, jointly controlled entity, or associate*

— HK(IFRIC) 13, *Customer loyalty programmes*

## 3 CHANGES IN ACCOUNTING POLICIES (continued)

The adoption of Improvements to HKFRSs (2008) and the amendments to HKFRS 2 and HK(IFRIC) 13 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

— HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters and more consistent with internal reporting provided to the Group's most senior executive management. As the Group's internal reporting to the Group's chief operating decision maker is disaggregated into segments based on business lines and on geographical areas, the adoption of HKFRS 8 has had no material impact on the general presentation of segment information.

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The Group has early adopted an amendment in the "Improvements to HKFRSs (2009)" which amended HKFRS 8 such that measure of total assets for each reportable segment is only required to be presented if it is regularly provided to the Group's chief operating decision maker. Segment assets are not reported to the Group's chief operating decision maker regularly. As a result, reportable segment assets have not been presented in these financial statements.

— As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 30(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

— The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 April 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 4 TURNOVER

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

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

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Retailing and distribution | | |
| — Hong Kong and Macao | 25,175 | 27,961 |
| — PRC | 127,028 | 245,221 |
| CDM | 213,916 | 290,919 |
| | 366,119 | 564,101 |

The Group's customer base is diversified and includes no customer with whom transactions have exceeded 10% of the Group's revenues.

Further details regarding the Group's principal activities are disclosed in note 13 to these financial statements.

## 5 OTHER REVENUE AND NET LOSS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Other revenue** | | |
| Interest income | 1,078 | 3,980 |
| Government subsidies | 1,168 | 1,155 |
| Gross rental income from investment property | 300 | 225 |
| Dividend income from listed securities | 120 | — |
| Others | 184 | 144 |
| | 2,850 | 5,504 |
| **Other net loss** | | |
| Net exchange (loss)/gain | (95) | 253 |
| Provision for long service payments | (740) | (387) |
| Net realised and unrealised losses on trading securities | (2,117) | — |
| Net gain on change in fair value of embedded financial derivatives | 1,009 | — |
| Net gain on disposal of property, plant and equipment | 149 | 12 |
| | (1,794) | (122) |

## 6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **(a) *Finance costs:*** | | |
| Interest on bank advances wholly repayable within five years | **7** | 996 |
| Interest on convertible bonds | **1,242** | — |
| Finance charges on obligations under finance leases | **7** | 26 |
| | **1,256** | 1,022 |
| **(b) *Staff costs:*** | | |
| Contributions to defined contribution retirement plans | **10,421** | 8,977 |
| Equity-settled share-based payment expenses *(note 27)* | **7,554** | 6,869 |
| Salaries, wages and other benefits | **116,553** | 149,002 |
| | **134,528** | 164,848 |

Staff costs include directors' remuneration (see note 8).

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **(c) *Other items:*** | | |
| Depreciation | | |
| — assets held under finance leases | **10** | 303 |
| — other assets | **21,495** | 32,851 |
| Amortisation of intangible assets | **3,391** | 1,044 |
| Impairment loss on trade and other receivables | **6,160** | 17,490 |
| Impairment loss on property, plant and equipment | **—** | 3,661 |
| Equity-settled share-based payment expenses | | |
| — directors and employees | **7,554** | 6,869 |
| — advisors and consultants | **5,133** | — |
| Provision for onerous contracts | **2,094** | — |
| Auditors' remuneration | **2,169** | 2,209 |
| Operating lease charges in respect of properties | | |
| — minimum lease payments | **66,379** | 73,637 |
| — contingent rent | **14,145** | 35,937 |
| Operating lease charges in respect of billboards | **3,687** | 8,086 |
| Rentals receivable from investment property less direct outgoing of $Nil (2009: $1,000) | **300** | 224 |
| Cost of inventories# | **190,342** | 326,493 |

# Cost of inventories includes $49,017,000 (2009: $61,676,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Current tax — Hong Kong Profits Tax** | | |
| Provision for the year | **136** | 276 |
| Over-provision in respect of prior years | **(8)** | (45) |
| | **128** | 231 |
| **Current tax — PRC** | | |
| Provision for the year | **768** | 6,471 |
| Under-provision in respect of prior years | **1,199** | 1 |
| | **1,967** | 6,472 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(1,473)** | (4,837) |
| Income tax expense | **622** | 1,866 |

*Notes:*

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

(ii) The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

(iii) Arts Empire Macao Commercial Offshore Limited was established as a Macao offshore company under the Macao Offshore Law and is exempted from the Macao Complementary Tax.

(iv) Alfreda International Company Limited is subject to the Macao Complementary Tax. No provision is made during the year as the company sustained tax losses.

(v) Pursuant to the Corporate Income Tax Law of the PRC (the "New Tax Law"), effective from 1 January 2008, the statutory income tax rate applicable to the Company's subsidiaries in Shenzhen has changed from 15% to 25% progressively under a 5-year transition period from calendar years 2008 to 2012 (2008: 18%; 2009: 20%; 2010: 22%; 2011: 24%; 2012: 25%). For the subsidiary located in Hai Feng, the statutory income tax rate has changed from 24% to 25% from 1 January 2008. Under the New Tax Law, the Hai Feng subsidiary can continue to enjoy the unexpired tax holiday during which it is fully exempted from PRC corporate income tax for two years starting from their first profit-making year in 2005, followed by a 50% reduction in the PRC corporate income tax for three years through 2009.

(vi) Under the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC entities. However, only the dividends attributable to the profits of the financial period starting from 1 January 2008 is subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Group is subject to a withholding tax at the rate of 5% for any dividend payments from certain of the Group's PRC subsidiaries.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Loss before taxation | **(99,827)** | (138,663) |
| Notional tax on loss before taxation, calculated at the rates applicable to losses in the jurisdictions concerned | **(20,567)** | (20,146) |
| Tax effect of non-deductible expenses | **6,784** | 8,302 |
| Tax effect of non-taxable income | **(431)** | (1,372) |
| Tax effect of unused tax losses not recognised | **14,456** | 12,252 |
| Tax effect of utilisation of tax losses not recognised in prior years | **(223)** | (132) |
| Tax effect of reversal of unused tax losses recognised in prior years | **498** | 3,348 |
| Effect of tax concessions granted to subsidiaries | **(488)** | (1,755) |
| (Reversal)/recognition of deferred tax liabilities in respect of retained earnings of a PRC subsidiary | **(100)** | 1,368 |
| Effect of change in tax rate | **(390)** | — |
| Under/(over)-provision in respect of prior years | **1,191** | (44) |
| Others | **(108)** | 45 |
| Actual tax expense | **622** | 1,866 |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Sub-total | Equity-settled share-based payments *(note)* | 2010 Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | | | |
| Tse Chiu Kwan | — | 8,248 | — | 12 | 8,260 | 1,193 | 9,453 |
| Yip Ying Kam (re-designated as non-executive director on 17 July 2009) | — | 675 | — | 4 | 679 | 83 | 762 |
| Xie Hai Hui (resigned on 28 August 2009) | — | — | — | — | — | — | — |
| Ho Pui Yin, Jenny | — | 1,922 | — | 12 | 1,934 | 1,081 | 3,015 |
| Lin Shao Hua (appointed on 17 July 2009) | — | 901 | — | — | 901 | 987 | 1,888 |
| **Non-executive director** | | | | | | | |
| Yip Ying Kam (re-designated as non-executive director on 17 July 2009) | — | 1,259 | — | 8 | 1,267 | 1,113 | 2,380 |
| **Independent non-executive directors** | | | | | | | |
| Chan Man Tuen, Irene | 180 | — | — | — | 180 | 21 | 201 |
| Lau Fai Lawrence | 222 | — | — | — | 222 | 21 | 243 |
| Fan William Chung Yue | 180 | — | — | — | 180 | 21 | 201 |
| | 582 | 13,005 | — | 36 | 13,623 | 4,520 | 18,143 |

## 8 DIRECTORS' REMUNERATION (continued)

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: (continued)

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Sub-total | Equity-settled share-based payments *(note)* | 2009 Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | | | |
| Tse Chiu Kwan | — | 2,712 | — | 12 | 2,724 | 3,106 | 5,830 |
| Yip Ying Kam | — | 2,084 | — | 12 | 2,096 | 923 | 3,019 |
| Xie Hai Hui | — | 1,195 | — | 10 | 1,205 | — | 1,205 |
| Ho Pui Yin, Jenny | — | 1,399 | — | 12 | 1,411 | 307 | 1,718 |
| **Independent non-executive directors** | | | | | | | |
| Chan Man Tuen, Irene (appointed on 23 April 2008) | 158 | — | — | — | 158 | — | 158 |
| Lau Fai Lawrence (appointed on 23 April 2008) | 194 | — | — | — | 194 | — | 194 |
| Fan William Chung Yue (appointed on 23 April 2008) | 158 | — | — | — | 158 | — | 158 |
| | 510 | 7,390 | — | 46 | 7,946 | 4,336 | 12,282 |

*Note*: These represent the estimated value of share options granted to the directors under the Company's share option schemes. The value of these share options was measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(r)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraphs "Pre-IPO Share Option Scheme" and "Share Option Scheme" in the Report of the Directors and note 27.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2009: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one (2009: one) individual is as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Salaries and other emoluments | **1,151** | 1,297 |
| Equity-settled share-based payments | **640** | 247 |
| Retirement scheme contributions | **12** | 11 |
| | **1,803** | 1,555 |

The emoluments of the one (2009: one) individual with the highest emoluments are within the following band:

| | **2010 Number of individuals** | 2009 Number of individuals |
|---|---|---|
| HK$1,000,001 — HK$1,500,000 | **—** | 1 |
| HK$1,500,001 — HK$2,000,000 | **1** | — |

## 10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of $237,631,000 (2009: $39,921,000) which has been dealt with in the financial statements of the Company.

### Reconciliation of the above amount to the Company's (loss)/profit for the year:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements | **(237,631,000)** | (39,921,000) |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | **—** | 43,000,000 |
| Company's (loss)/profit for the year *(note 29(a))* | **(237,631,000)** | 3,079,000 |

## 11 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 March 2010 and 2009.

## 12 LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 March 2010 is based on the loss attributable to equity shareholders of the Company of $100,449,000 (2009: $140,529,000) and the weighted average number of ordinary shares in issue during the year ended 31 March 2010 of 1,021,125,945 (2009: 965,847,261). The weighted average number of shares in issue during the year ended 31 March 2009 is calculated on the assumption that the 750,000,000 ordinary shares issued upon the Reorganisation were outstanding throughout the year.

### Weighted average number of ordinary shares

| | **2010** **No. of shares** | 2009 No. of shares |
|---|---|---|
| Issued ordinary shares at 1 April | **992,238,000** | — |
| Shares issued upon Reorganisation | — | 750,000,000 |
| Effect of shares issued under placing and public offering on 16 May 2008 | — | 218,493,151 |
| Effect of shares issued under share placement *(note 29(c)(i))* | **17,835,616** | — |
| Effect of shares issued under share option schemes *(note 29(c)(i))* | **11,052,329** | — |
| Effect of shares repurchased *(note 29(c)(ii))* | — | (2,645,890) |
| Weighted average number of shares at 31 March | **1,021,125,945** | 965,847,261 |

Diluted loss per share equals to basic loss per share for the years ended 31 March 2010 and 2009 because the exercise of share options and conversion of convertible bonds would result in a decrease in the loss per share.

## 13 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by different business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable 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. |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 13 SEGMENT REPORTING (continued)

### (a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit before tax. The Group's senior executive management is provided with segment information concerning segment revenue and profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 March 2010 and 2009 is set out below.

| | **2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Retailing and distribution** | | | | | |
| | **Mainland China HK$'000** | **Hong Kong and Macao HK$'000** | **Sub-total HK$'000** | **CDM sales HK$'000** | **Inter-segment elimination HK$'000** | **Consolidated HK$'000** |
| Revenue from external customers | **127,028** | **25,175** | **152,203** | **213,916** | **—** | **366,119** |
| Inter-segment revenue | **—** | **—** | **—** | **26,538** | **(26,538)** | **—** |
| Reportable segment revenue | **127,028** | **25,175** | **152,203** | **240,454** | **(26,538)** | **366,119** |
| Reportable segment (loss)/profit | **(86,026)** | **(6,990)** | **(93,016)** | **47,806** | | **(45,210)** |
| Unallocated income and expenses | | | | | | **(55,239)** |
| Loss for the year | | | | | | **(100,449)** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Retailing and distribution | | | | | |
| | Mainland China HK$'000 | Hong Kong and Macao HK$'000 | Sub-total HK$'000 | CDM sales HK$'000 | Inter-segment elimination HK$'000 | Consolidated HK$'000 |
| Revenue from external customers | 245,221 | 27,961 | 273,182 | 290,919 | — | 564,101 |
| Inter-segment revenue | — | — | — | 61,447 | (61,447) | — |
| Reportable segment revenue | 245,221 | 27,961 | 273,182 | 352,366 | (61,447) | 564,101 |
| Reportable segment (loss)/profit | (82,059) | (17,310) | (99,369) | 10,705 | | (88,664) |
| Unallocated income and expenses | | | | | | (51,865) |
| Loss for the year | | | | | | (140,529) |

## 13 SEGMENT REPORTING (continued)

### (b) Reconciliations of reportable segment loss

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Loss** | | |
| Reportable segment loss derived from Group's external customers | **45,210** | 88,664 |
| Share of loss of an associate | **88** | — |
| Net finance costs | **1,256** | 1,022 |
| Income tax expense | **622** | 1,866 |
| Unallocated head office and corporate expenses | **53,273** | 48,977 |
| Consolidated loss for the year | **100,449** | 140,529 |

### (c) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

*Revenue from external customers*

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Hong Kong and Macao | **53,207** | 113,299 |
| Mainland China | **130,809** | 272,709 |
| Other parts of Asia | **2,673** | 14,487 |
| Americas | **81,341** | 62,205 |
| Europe | **75,154** | 88,791 |
| Africa | **22,935** | 12,610 |
| | **366,119** | 564,101 |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 14 FIXED ASSETS

| | The Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | | | | | | |
| | **Buildings** HK$'000 | **Leasehold improvements** HK$'000 | **Office equipment** HK$'000 | **Furniture and fixtures** HK$'000 | **Motor vehicles** HK$'000 | **Plant and machinery** HK$'000 | **Sub-total** HK$'000 | **Investment property** HK$'000 | **Interests in leasehold land held for own use under operating leases** HK$'000 | **Total** HK$'000 |
| **At cost:** | | | | | | | | | | |
| At 1 April 2008 | 17,419 | 30,136 | 26,838 | 3,276 | 8,127 | 13,504 | 99,300 | — | 23,375 | 122,675 |
| Exchange adjustments | 167 | 509 | 488 | 42 | 30 | 267 | 1,503 | — | 248 | 1,751 |
| Additions | 8,327 | 15,813 | 3,749 | 1,792 | 1,312 | 5,791 | 36,784 | — | — | 36,784 |
| Disposals | (1,617) | (5,207) | (5) | (311) | (1,094) | (54) | (8,288) | — | — | (8,288) |
| Transfer *(note (c))* | (8,251) | — | — | — | — | — | (8,251) | 8,251 | — | — |
| At 31 March 2009 | 16,045 | 41,251 | 31,070 | 4,799 | 8,375 | 19,508 | 121,048 | 8,251 | 23,623 | 152,922 |
| At 1 April 2009 | 16,045 | 41,251 | 31,070 | 4,799 | 8,375 | 19,508 | 121,048 | 8,251 | 23,623 | 152,922 |
| Exchange adjustments | 42 | 92 | 74 | 10 | 7 | 49 | 274 | — | 33 | 307 |
| Additions | 16,042 | 5,824 | 3,350 | 82 | 2,852 | 35 | 28,185 | — | — | 28,185 |
| Disposals | — | (25,564) | (96) | — | (589) | — | (26,249) | — | — | (26,249) |
| At 31 March 2010 | 32,129 | 21,603 | 34,398 | 4,891 | 10,645 | 19,592 | 123,258 | 8,251 | 23,656 | 155,165 |
| **Accumulation amortisation, depreciation and impairment loss:** | | | | | | | | | | |
| At 1 April 2008 | 8,096 | 8,538 | 4,538 | 1,888 | 5,488 | 2,300 | 30,848 | — | 1,630 | 32,478 |
| Exchange adjustments | 18 | 175 | 63 | 18 | 9 | 46 | 329 | — | 20 | 349 |
| Charge for the year | 654 | 23,022 | 4,687 | 922 | 967 | 1,615 | 31,867 | 276 | 1,011 | 33,154 |
| Written back on disposals | (1,617) | (5,207) | (5) | (312) | (1,093) | (17) | (8,251) | — | — | (8,251) |
| Transfer *(note (c))* | (4,209) | — | — | — | — | — | (4,209) | 4,209 | — | — |
| Impairment loss | — | 3,661 | — | — | — | — | 3,661 | — | — | 3,661 |
| At 31 March 2009 | 2,942 | 30,189 | 9,283 | 2,516 | 5,371 | 3,944 | 54,245 | 4,485 | 2,661 | 61,391 |
| At 1 April 2009 | 2,942 | 30,189 | 9,283 | 2,516 | 5,371 | 3,944 | 54,245 | 4,485 | 2,661 | 61,391 |
| Exchange adjustments | 4 | 68 | 18 | 4 | 2 | 9 | 105 | — | 4 | 109 |
| Charge for the year | 996 | 11,150 | 4,036 | 960 | 1,251 | 1,937 | 20,330 | 274 | 901 | 21,505 |
| Written back on disposals | — | (25,564) | (52) | — | (579) | — | (26,195) | — | — | (26,195) |
| At 31 March 2010 | 3,942 | 15,843 | 13,285 | 3,480 | 6,045 | 5,890 | 48,485 | 4,759 | 3,566 | 56,810 |
| **Net book value:** | | | | | | | | | | |
| At 31 March 2010 | 28,187 | 5,760 | 21,113 | 1,411 | 4,600 | 13,702 | 74,773 | 3,492 | 20,090 | 98,355 |
| At 31 March 2009 | 13,103 | 11,062 | 21,787 | 2,283 | 3,004 | 15,564 | 66,803 | 3,766 | 20,962 | 91,531 |

## 14 FIXED ASSETS (continued)

### (a) The analysis of net book value of properties is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Medium term leases | | |
| — in Hong Kong | **11,897** | 12,552 |
| — outside Hong Kong | **39,872** | 25,279 |
| | **51,769** | 37,831 |
| Representing: | | |
| Buildings | **28,187** | 13,103 |
| Investment property carried at cost | **3,492** | 3,766 |
| Interests in leasehold land held for own use under operating leases | **20,090** | 20,962 |
| | **51,769** | 37,831 |

### (b) Property, plant and equipment held under finance leases

The Group acquired motor vehicles under finance leases expiring in two years. During the year, additions to fixed assets financed by a new finance lease amounted to $482,000 (2009: $Nil).

At the balance sheet date, the net book value of motor vehicles held under finance leases of the Group was $613,000 (2009: $606,000). These assets are pledged to secure the Group's obligations under finance leases (note 25).

### (c) Fixed assets leased out under operating leases

During the year ended 31 March 2009, a property with a carrying value amounting to $4,042,000 held in Hong Kong under a medium-term lease was transferred from leasehold land and buildings to investment property because the Group has changed its intention in respect of the use of this property.

The fair value of the investment property was estimated to be $5,872,000 (2009: $7,000,000) as at 31 March 2010 by directors with reference to the recent transaction history of nearby similar properties.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 14 FIXED ASSETS (continued)

### (c) Fixed assets leased out under operating leases (continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **75** | 75 |

### (d) Fixed assets pledged for bank borrowings

As at 31 March 2010, certain of the Group's properties with net book value of $11,897,000 (2009: $12,552,000) were pledged as security for certain bank borrowings and facilities granted to the Group (note 24).

### (e) Impairment loss

During the year, the Group's management identified several retail stores which have indication of impairment. Accordingly, they estimated the recoverable amounts of the fixed assets of these retail stores. Based on these estimates, no impairment losses on fixed assets were recognised during the year (2009: $3,661,000). The estimated recoverable amounts were determined based on the estimated future cash flows generated from these fixed assets. The impairment loss was included in "Other operating expenses" in the consolidated income statement.

## 15 INTANGIBLE ASSETS

| | The Group | | |
|---|---|---|---|
| | **Licence fees** | **Trademarks** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 |
| **Cost:** | | | |
| At 1 April 2008 | — | 593 | 593 |
| Additions | 6,748 | — | 6,748 |
| Exchange adjustments | 17 | — | 17 |
| At 31 March 2009 | 6,765 | 593 | 7,358 |
| At 1 April 2009 | 6,765 | 593 | 7,358 |
| Exchange adjustments | 17 | — | 17 |
| At 31 March 2010 | 6,782 | 593 | 7,375 |
| **Accumulated amortisation:** | | | |
| At 1 April 2008 | — | — | — |
| Charge for the year | 1,044 | — | 1,044 |
| Exchange adjustments | 3 | — | 3 |
| At 31 March 2009 | 1,047 | — | 1,047 |
| At 1 April 2009 | 1,047 | — | 1,047 |
| Charge for the year | 3,391 | — | 3,391 |
| Exchange adjustments | 2 | — | 2 |
| At 31 March 2010 | 4,440 | — | 4,440 |
| **Net book value:** | | | |
| At 31 March 2010 | 2,342 | 593 | 2,935 |
| At 31 March 2009 | 5,718 | 593 | 6,311 |

Intangible assets represent the registration cost of the Group's trademarks used in the manufacture and sale of the Group's products and the licence fees paid for using certain trademarks of third parties. The trademarks related to the Group's brand name are considered to have indefinite useful lives and are not amortised. The licence fees in respect of third parties' trademarks are amortised on a straight line basis over the contract periods of 2 to 3 years. The amortisation charge for the year is included in "Selling and distribution costs" in the consolidated income statement.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 16 INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2010** **HK$'000** | 2009 HK$'000 |
| Unlisted shares, at cost | **153,424** | 153,424 |
| Fair value of share options granted to employees of subsidiaries | **5,481** | 2,533 |
| | **158,905** | 155,957 |
| Amounts due from subsidiaries | **499,473** | 448,879 |
| | **658,378** | 604,836 |
| Less: impairment loss | **(251,000)** | (31,000) |
| | **407,378** | 573,836 |

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment but are not expected to be recovered within one year of the balance sheet date.

### Impairment loss

During the year, a number of the Company's subsidiaries sustained losses and had net liabilities as at 31 March 2010. The Company assessed the recoverable amounts of the subsidiaries and as a result an impairment loss on the interests in subsidiaries of $251,000,000 (2009: $31,000,000) was recorded as at 31 March 2010 to write down the carrying amounts to estimated recoverable amounts. The estimated recoverable amounts were determined based on the estimated future cash flows generated from these subsidiaries.

The following list contains the particular of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place and date of incorporation/ establishment | Place of operation | Percentage of equity attributable to the Company Direct | Indirect | Issued and fully paid-up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| Alfreda International Company Limited | Macao 22 March 2007 | Macao | — | 100 | MOP 50,000 | Retailing of fashion accessories |
| Artini International Company Limited | Hong Kong 16 July 2003 | Hong Kong | — | 100 | 300,000 shares of HK$1 each | Retailing of fashion accessories |
| Artini Sales Company Limited | Hong Kong 9 June 1992 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Trading of fashion accessories |
| Artist Empire Gifts & Premium Mfy. Limited | Hong Kong 11 February 2004 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Trading of fashion accessories |
| Artist Empire International Group Company Limited | Hong Kong 10 September 1996 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Investment holding |
| Artist Empire Jewellery Enterprise Company Limited | Hong Kong 2 April 2005 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Trading of fashion accessories |

## 16 INTERESTS IN SUBSIDIARIES (continued)

| Name of company | Place and date of incorporation/ establishment | Place of operation | Percentage of equity attributable to the Company Direct | Indirect | Issued and fully paid-up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| Artist Empire Jewellery Mfy. Limited | Hong Kong 8 September 2006 | Hong Kong | — | 100 | 100 shares of HK$1 each | Trading of fashion accessories |
| Artist Empire Silver Jewellery Mfy. Limited | Hong Kong 7 January 2004 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Trading of fashion accessories |
| Artist Empire (Hai Feng) Jewellery Mfy. Limited *(note)* | PRC 28 March 2002 | PRC | — | 100 | HK$97,600,000 | Manufacturing and sale of fashion accessories |
| Artist Star International Development Limited | BVI 7 December 2004 | Hong Kong | 100 | — | 1,000 shares of US$1 each | Investment holding |
| Artplus Investment Limited | Hong Kong 9 June 1992 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Trading of fashion accessories |
| Arts Empire Macao Commercial Offshore Limited | Macao 14 January 2005 | Macao | — | 100 | MOP 200,000 | Trading of fashion accessories and related raw materials |
| Bo-Wealth (Shenzhen) Trading Co. Ltd. *(note)* | PRC 19 October 2006 | PRC | — | 100 | HK$1,500,000 | Trading of fashion accessories |
| Elili Int'l Company Limited | Hong Kong 19 July 2006 | Hong Kong | — | 100 | 100 shares of HK$1 each | Trading of fashion accessories |
| Gain Trade Enterprise Limited | Hong Kong 15 October 2004 | Hong Kong | — | 100 | 100 shares of HK$1 each | Investment holding |
| Gentleman Investments Limited | Hong Kong 20 January 1993 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Investment holding |
| Hanberg (HK) Limited | Hong Kong 5 June 2007 | Hong Kong | — | 100 | 1 share of HK$1 | Not yet commence operation |
| Ho Easy Limited | BVI 3 May 2004 | Hong Kong | — | 100 | 1 share of US$1 | Investment holding |
| Instar International Company Limited | BVI 25 November 2004 | Hong Kong | — | 100 | 100 shares of US$1 each | Investment holding |
| JCM Holding Limited | BVI 7 December 2004 | Hong Kong | — | 100 | 500 shares of US$1 each | Investment holding |
| Keon Company Limited | Hong Kong 27 April 2005 | Hong Kong | — | 100 | 10,000 shares of HK$1 each | Provision of logistics services |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 16 INTERESTS IN SUBSIDIARIES (continued)

| Name of company | Place and date of incorporation/ establishment | Place of operation | Percentage of equity attributable to the Company Direct | Indirect | Issued and fully paid-up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| King Erich International Development Limited | BVI 7 December 2004 | Hong Kong | — | 100 | 300 shares of US$1 each | Investment holding |
| King Land Limited | Hong Kong 11 November 2008 | Hong Kong | — | 100 | 100 shares of HK$1 each | Not yet commence operation |
| Q'ggle Company Limited | Hong Kong 19 July 2006 | Hong Kong | — | 100 | 100 shares of HK$1 each | Investment holding |
| Riccardo International Trading Limited | BVI 7 December 2004 | Hong Kong | — | 100 | 700 shares of US$1 each | Investment holding |
| Shenzhen Artini Fashion Accessories Co., Ltd. *(note)* | PRC 6 June 2006 | PRC | — | 100 | HK$200,000,000 | Retailing of fashion accessories |
| Shop Front Trading Limited | BVI 20 December 2000 | Hong Kong | — | 100 | 100 shares of US$1 each | Provision of product design services |
| TCK Company Limited | BVI 25 November 2004 | Hong Kong | — | 100 | 100 shares of US$1 each | Trading of fashion accessories and related raw materials |
| Techjoy Limited | BVI 12 January 2010 | Hong Kong | — | 100 | 100 shares of US$1 each | Trading of fashion accessories |

*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.

## 17 INTEREST IN AN ASSOCIATE

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **410** | — |

Details of the Group's interest in an associate at 31 March 2010 are as follows:

| Name of company | Form of business structure | Place of incorporation | Place of operation | Issued and fully paid-up capital | Attributable equity interest indirectly held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Q'ggle Lingerie Company Limited | Incorporated | Hong Kong | Macao | 10,000 ordinary shares of HK$1 each | 19.9% | Retailing of lingerie products |

Summary financial information on the associate:

| | **Assets** | **Liabilities** | **Equity** | **Revenue** | **Loss** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2010** | | | | | |
| 100% | **2,147** | **87** | **2,060** | **74** | **440** |
| Group's effective interest | **427** | **17** | **410** | **15** | **88** |
| 2009 | | | | | |
| 100% | — | — | — | — | — |
| Group's effective interest | — | — | — | — | — |

## 18 TRADING SECURITIES

| | The Group and the Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong, at fair value | **21,126** | — |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 19 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Raw materials | **17,167** | 9,907 |
| Work in progress | **20,432** | 7,482 |
| Finished goods | **32,712** | 38,938 |
| | **70,311** | 56,327 |

(b) The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Carrying amount of inventories sold | **182,636** | 321,730 |
| Write down of inventories | **7,706** | 4,763 |
| | **190,342** | 326,493 |

## 20 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade debtors | **40,780** | 37,066 | **—** | — |
| Less: Allowance for doubtful debts *(note 20(b))* | **(344)** | (2,960) | **—** | — |
| | **40,436** | 34,106 | **—** | — |
| Rental deposits | **10,799** | 14,198 | **—** | — |
| Prepayment for purchase of raw materials | **11,115** | 272 | **—** | — |
| Prepayment for advertising service *(note 32(d))* | **10,000** | — | **10,000** | — |
| Deposits for acquisition of businesses *(note 20(c))* | **37,600** | — | **22,600** | — |
| Temporary payments | **10,343** | — | **8,550** | — |
| Other prepayments and receivables | **21,442** | 9,380 | **137** | 395 |
| | **141,735** | 57,956 | **41,287** | 395 |

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

## 20 TRADE AND OTHER RECEIVABLES (continued)

### (a) Ageing analysis

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

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Current | **25,655** | 24,874 |
| Less than 3 months past due | **11,394** | 8,306 |
| 3 to 6 months past due | **2,517** | 811 |
| Over 6 months past due | **870** | 115 |
| Amounts past due | **14,781** | 9,232 |
| | **40,436** | 34,106 |

Trade debtors are due within 30 to 90 days from the date of billing.

Further details on the Group's credit policy are set out in note 30(a).

### (b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(k)(i)).

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

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 April | **2,960** | 591 |
| Impairment loss recognised | **198** | 17,490 |
| Uncollectible amounts written off | **(2,814)** | (15,121) |
| At 31 March | **344** | 2,960 |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 20 TRADE AND OTHER RECEIVABLES (continued)

### (b) Impairment of trade debtors (continued)

At 31 March 2010, the Group fully provided specific allowances for doubtful debts for trade debtors which were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the prospect of recovery of the receivables was remote.

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are set out in note 20(a).

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

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

### (c) Deposits for acquisition of businesses

On 25 January 2010, the Group entered into a memorandum of undertaking to acquire a company which holds a licence for manufacture and trading of a sport brand accessories and $22,600,000 was paid by the Group to the shareholder of the company as a deposit.

On 10 March 2010, the Group entered into a memorandum of undertaking to purchase 20% equity interest in another company which is engaged in trading of food products and $15,000,000 was paid by the Group to the shareholder of the company as a deposit.

According to the terms stated in the memoranda of undertaking, these deposits would be refunded if the business acquisitions were called off, otherwise, the deposits would be treated as part of the acquisition considerations. Up to the date of issuance of these financial statements, the directors are in the process of negotiating with the target companies on the terms of the business acquisitions and due diligence studies have yet been performed on the target companies.

## 21 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Deposits with banks and other financial institution | **51,734** | 51,597 | **—** | — |
| Cash at bank and in hand | **139,697** | 226,300 | **40,604** | 30,267 |
| Cash and cash equivalents in the balance sheets | **191,431** | 277,897 | **40,604** | 30,267 |

Included in cash and cash equivalents in the consolidated balance sheet of the Group were amounts denominated in Renminbi of approximately RMB69,038,000 (2009: RMB93,472,000). Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restriction imposed by the PRC government.

## 22 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Trade creditors | **8,329** | 6,567 | **—** | — |
| Receipts in advance | **17,611** | 11,929 | **—** | — |
| Value added tax and other tax payable | **6,170** | 3,497 | **—** | — |
| Provision for onerous contracts | **2,094** | — | **—** | — |
| Accrued charges and other payables | **27,175** | 27,401 | **2,220** | 1,028 |
| Amounts due to subsidiaries | **—** | — | **24,922** | 2,188 |
| Amounts due to related parties *(note 34(a))* | **107** | 107 | **—** | — |
| | **61,486** | 49,501 | **27,142** | 3,216 |

*Notes:*

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

(ii) Amounts due to related parties and subsidiaries are unsecured, interest-free and repayable on demand.

(iii) Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 |
| By date of invoice: | | |
| Within 3 months | **8,268** | 5,718 |
| More than 3 months but within 6 months | **53** | — |
| More than 6 months but within 1 year | **8** | 541 |
| Over 1 year | **—** | 308 |
| | **8,329** | 6,567 |

(iv) Movements of provision for onerous contracts are summarised as follows:

| | The Group | |
|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 |
| At 1 April | **—** | — |
| Provision for the year *(note 6(c))* | **2,094** | — |
| At 31 March | **2,094** | — |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 23 CONVERTIBLE BONDS

On 22 January 2010, the Company issued convertible bonds to an independent third party (the "Bondholder") with a principal amount of $20,000,000 (the "Convertible Bonds" or the "Bonds"). The Company received proceeds of $18,031,000, net of issuance costs of $1,969,000. The Convertible Bonds do not bear interest, are secured by a guarantee provided by a director of the Company and have a maturity date of 22 January 2011.

The principal terms of the Convertible Bonds are as follows:

### (a) Optional conversion

The Bondholder's conversion rights are exercisable at any time up to maturity at the Bondholder's option. If the Bondholder exercises its conversion rights, the Company is required to deliver variable number of ordinary shares, calculated by dividing the aggregate principal amount of the Bonds to be converted, by the applicable conversion price in effect on the relevant conversion date.

### (b) Redemption

— *Redemption at the option of the Bondholder*

The Bondholder has the option to require the Company to redeem any Bonds at 112% of their principal amount upon the occurrence of any one of the events as specified in the bond instrument.

— *Redemption at the option of the Company*

The Company has the option to early redeem all of the Bonds at any time up to maturity, at the redemption price of 112% of the principal amount.

— *Redemption at maturity*

The Convertible Bonds, in respect of which conversion rights have not been exercised, will be redeemed at 112% of the principal amount on 22 January 2011.

## 23 CONVERTIBLE BONDS (continued)

### (b) Redemption (continued)

As the number of shares to be received at each balance sheet date is dependent upon the previous closing price of the shares of the Company, the conversion of the Convertible Bonds will not be settled by exchange of a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39, *Financial Instruments — Recognition and Measurement*, the Convertible Bonds contract must be separated into a liability component consisting of the straight debt element of the Bonds and a number of embedded financial derivatives consisting of redemption options and the option of the Bondholder to convert the Bonds into equity. The proceeds received from the issue of the Convertible Bonds have been split as follows:

(i) Liability components were initially measured by deducting the fair value of the embedded financial derivatives from the proceeds of issue of the Convertible Bonds as a whole.

The interest charged for the period is calculated by applying an effective interest rate of 55.03% to the liability component since the Convertible Bonds were issued.

(ii) Embedded financial derivatives comprise:

— The fair value of the conversion option of the Bondholder to convert the Convertible Bonds into the Company's shares;

— The fair value of the put option of the Bondholder to require the Company to redeem the Convertible Bonds; and

— The fair value of the call option of the Company to redeem the Convertible Bonds.

(iii) The fair value of the embedded financial derivatives was calculated using the Binomial Tree Model. The major inputs used in the model as at 22 January 2010 (date of issue) and 31 March 2010 were as follows:

| | **22 January 2010** | **31 March 2010** |
|---|---|---|
| Share price | **$1.160** | **$0.920** |
| Adjusted conversion price | **$1.073** | **$1.073** |
| Risk free rate | **0.22%** | **0.19%** |
| Expected life | **1 year** | **0.81 year** |
| Volatility | **99.34%** | **83.24%** |

The Company's stock prices were $1.160 and $0.920 as at 22 January 2010 and 31 March 2010 respectively. The risk free rates were determined with reference to the yield of Hong Kong Exchange Fund Bills. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the daily historical price volatilities of the Company.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives. The variables and assumptions used in calculating the fair value of the embedded financial derivatives are based on the directors' best estimates.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 23 CONVERTIBLE BONDS (continued)

### (b) Redemption (continued)

(iii) (continued)

The movement of the liability component and embedded financial derivatives of the Convertible Bonds for the period is set out below:

| | The Group and the Company | | |
|---|---|---|---|
| | Liability component HK$'000 | Embedded financial derivatives HK$'000 | Total HK$'000 |
| Convertible Bonds issued on 22 January 2010 | **16,347** | **3,653** | **20,000** |
| Transaction costs | **(1,969)** | **—** | **(1,969)** |
| Interest charged during the period from 22 January 2010 to 31 March 2010 *(note 6(a))* | **1,242** | **—** | **1,242** |
| Changes in fair value during the period from 22 January 2010 to 31 March 2010 *(note 5)* | **—** | **(1,009)** | **(1,009)** |
| As at 31 March 2010 | **15,620** | **2,644** | **18,264** |

No conversion of the Convertible Bonds has occurred up to 31 March 2010.

The changes in the fair value of the embedded financial derivatives from 22 January 2010 to 31 March 2010 resulted in a fair value gain of $1,009,000, which has been recorded in "Other net loss" in the consolidated income statement for the year ended 31 March 2010 (note 5).

## 24 BANK LOANS

At 31 March 2009, all bank loans of the Group were secured and denominated in Hong Kong dollars, which carried interest at the prime rate minus margin. Interest rates charged for the year ended 31 March 2009 ranged from 2.35% to 5.25% per annum and the bank loans were repayable within one year.

At 31 March 2010, the banking facilities of the Group were secured by mortgages over certain of its properties with an aggregate carrying value of $11,897,000 (2009: $12,552,000) (note 14(d)) and cross corporate guarantee given by the Group. At the balance sheet date, banking facilities available to the Group amounted to $11,419,000 (2009: $89,346,000), which were utilised by the Group to the extent of $1,619,000 (2009: $1,755,000).

## 25 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2010, the Group had obligations under finance leases repayable as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Present value of the minimum lease payments HK$'000** | **Total minimum lease payments HK$'000** | Present value of the minimum lease payments HK$'000 | Total minimum lease payments HK$'000 |
| Within 1 year | **233** | **263** | 181 | 184 |
| After 1 year but within 2 years | **231** | **241** | — | — |
| | **464** | **504** | 181 | 184 |
| Less: total future interest expenses | | **(40)** | | (3) |
| Present value of lease obligations | | **464** | | 181 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 14(b)).

## 26 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The employees of the Company's subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the government of the respective jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect of the retirement benefits schemes is to make the specified contributions.

During the year, the Group made retirement benefits scheme contributions totalling $10,421,000 (2009: $8,977,000). At the balance sheet date, there are no forfeited contributions.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a Pre-IPO Share Option Scheme and a Share Option Scheme which were adopted on 23 April 2008 whereby the directors are authorised, at their discretion, to invite directors (including executive, non-executive and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers for the Group, to take up options at nominal consideration to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the schemes shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the schemes, unless the Company obtains a fresh approval from its shareholders. Notwithstanding this, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the schemes shall not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to any individual in any 12-month period shall not exceed 1% of the total number of shares in issue at any point in time, without prior approval from the Company's shareholders. Options granted to any individual who is a substantial shareholder of the Company or independent non-executive director or any of their respective associates in the 12-month period up to and including date of such grant in excess of 0.1% of the Company's share capital at the date of grant or with a value in excess of $5 million must be approved in advance by the Company's shareholders.

Options granted under the Pre-IPO Share Option Scheme must be taken up within 28 days of the date of grant upon payment of $1 per grant of option. Options may generally be exercised from 16 May 2008 to 15 May 2011, subject to vesting periods as stated in the Pre-IPO Share Option Scheme. The subscription price for shares will be 85% of the offer price per share at the initial public offering of the Company.

Options granted under the Share Option Scheme must be taken up within 28 days of the date of grant upon payment of $1 per grant of option. Options may generally be exercised at any time during the period after the options have been granted, such period to expire not later than 10 years after the date of the grant of the options. The subscription price for shares will not be less than the higher of (i) the closing price of the Company's shares on the date of options granted; (ii) the average closing price of the Company's shares for the 5 business days immediately preceding the date of options granted; and (iii) the nominal value of the Company's share. There is no minimum period for which an option granted on 27 March 2009 must be held before it can be exercised.

Options granted to directors and advisors on 27 July 2009 vest immediately at the date of grant and are then exercisable within a period of two years. The exercise periods of options granted to employees on 27 July 2009 are subject to certain conditions as disclosed in notes 27(a)(i) and (ii).

A maximum of 50% of the options granted to employees and consultants on 20 October 2009 are exercisable between 20 October 2009 and 19 January 2010. The remaining options are exercisable between 20 January 2010 and 19 October 2011.

For options granted on 27 July 2009 and 20 October 2009, directors and employees must remain employed by the Group for a period of two years from the respective grant dates to be unconditionally entitled to the benefits of the share options.

## 27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| | Number of options | Exercise price HK$ | Exercise period |
|---|---|---|---|
| Options granted to directors on: | | | |
| — 2 May 2008 ("Tranche A") | 2,115,000 | 1.887 | 16 May 2008 to 15 May 2009 |
| | 2,115,000 | 1.887 | 16 May 2009 to 15 May 2010 |
| | 2,820,000 | 1.887 | 16 May 2010 to 15 May 2011 |
| — 27 July 2009 ("Tranche C") | 31,100,000 | 0.830 | 27 July 2009 to 26 July 2011 |
| Options granted to employees on: | | | |
| — 2 May 2008 ("Tranche A") | 420,000 | 1.887 | 16 May 2008 to 15 May 2009 |
| | 420,000 | 1.887 | 16 May 2009 to 15 May 2010 |
| | 560,000 | 1.887 | 16 May 2010 to 15 May 2011 |
| — 27 March 2009 ("Tranche B") | 5,500,000 | 0.371 | 27 March 2009 to 26 March 2019 |
| — 27 July 2009 ("Tranche D") | 10,550,000 | 0.830 | Note (i) |
| — 27 July 2009 ("Tranche E") | 10,550,000 | 0.830 | Note (ii) |
| — 20 October 2009 ("Tranche F") | 19,550,000 | 0.680 | 20 October 2009 to 19 October 2011 |
| — 20 October 2009 ("Tranche G") | 19,550,000 | 0.680 | 20 January 2010 to 19 October 2011 |
| Options granted to advisors/consultants on: | | | |
| — 27 July 2009 ("Tranche C") | 33,300,000 | 0.830 | 27 July 2009 to 26 July 2011 |
| — 20 October 2009 ("Tranche F") | 30,250,000 | 0.680 | 20 October 2009 to 19 October 2011 |
| — 20 October 2009 ("Tranche G") | 30,250,000 | 0.680 | 20 January 2010 to 19 October 2011 |
| Total share options | 199,050,000 | | |

*Notes:*

(i) In respect of employees who had joined the Group for a full year or more on 27 July 2009, the options are exercisable between 27 July 2009 and 26 July 2010. In respect of employees who had not joined the Group for a full year on 27 July 2009, the options are exercisable during the 12 months commencing from the date they have been employed by the Group for one full year ("the Starting Date").

(ii) In respect of employees who had joined the Group for a full year or more on 27 July 2009, the options are exercisable between 27 July 2010 and 26 July 2011. In respect of employees who had not joined the Group for a full year on 27 July 2009, the options are exercisable during the 12 months commencing from the first anniversary of the Starting Date.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and weighted average exercise prices of share options are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of options** | Weighted average exercise price HK$ | Number of options |
| Outstanding at the beginning of the year | **1.289** | **13,950,000** | — | — |
| Granted during the year | **0.749** | **185,100,000** | 1.349 | 15,500,000 |
| Forfeited during the year | **0.715** | **(7,070,000)** | 1.887 | (1,550,000) |
| Exercised during the year | **0.662** | **(54,300,000)** | — | — |
| Lapsed during the year | **1.887** | **(2,535,000)** | — | — |
| Outstanding at the end of the year | **0.820** | **135,145,000** | 1.289 | 13,950,000 |
| Exercisable at the end of the year | **0.791** | **122,105,000** | 0.849 | 8,035,000 |

The weighted average share price at the date of exercise for share options exercised during the year was $1.019 (2009: no share options were exercised).

The options outstanding at 31 March 2010 had an exercise price of $0.680 to $1.887 (2009: $0.371 or $1.887) and a weighted average remaining contractual life of 1.3 years (2009: 4.7 years).

Subsequent to the balance sheet date and up to the date of these financial statements, 44,850,000 share options under the Share Option Scheme were exercised.

## 27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on either the binomial option pricing model or the Black-Scholes option pricing model. The inputs into the models were as follows:

*Fair value of share options and assumptions*

| | Pre-IPO Share Option Scheme | Share Option Scheme | | | | |
|---|---|---|---|---|---|---|
| Granted on | 2 May 2008 | 27 March 2009 | 27 July 2009 | 27 July 2009 | 20 October 2009 | 20 October 2009 |
| Tranche | A | B | C and E | D | F | G |
| Option pricing model | Binomial | Binomial | Black-Scholes | Black-Scholes | Black-Scholes | Black-Scholes |
| Fair value per share option at measurement date | $0.824 | $0.234 | $0.303 | $0.252 | $0.038 | $0.216 |
| Share price | $2.109 | $0.371 | $0.830 | $0.830 | $0.640 | $0.640 |
| Exercise price | $1.887 | $0.371 | $0.830 | $0.830 | $0.680 | $0.680 |
| Expected volatility | 50.05% | 52.72% | 73.11% | 85.06% | 45.79% | 71.54% |
| Expected option period | 3 years | 10 years | 2 years | 1 year | 0.25 year | 2 years |
| Risk-free rate (based on Hong Kong Exchange Fund Notes) | 1.852% | 1.927% | 0.363% | 0.090% | 0.030% | 0.464% |
| Expected dividend yield | 0% | 0% | 0% | 0% | 0% | 0% |

The expected volatility was based on the historical volatility of the share price of the Company and comparable companies. The expected life used in the model was adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The option pricing models require the input of highly subjective assumptions, including the volatility of share price. Changes in the subjective input assumptions could materially affect the fair value estimate.

Certain share options were granted under service conditions. These conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 28 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

### (a) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Provision for the year | | |
| — Hong Kong Profits Tax | **136** | 276 |
| — PRC corporate income tax | **768** | 6,471 |
| Tax paid | **(1,128)** | (8,178) |
| | **(224)** | (1,431) |
| Balance of provision relating to prior years | **718** | 1,037 |
| Net tax payable/(recoverable) | **494** | (394) |
| Representing: | | |
| Tax recoverable | **(964)** | (1,477) |
| Tax payable | **1,458** | 1,083 |
| | **494** | (394) |

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| **Deferred tax arising from:** | **Unutilised tax losses** | **Depreciation allowances in excess of the related depreciation** | **Unrealised gains/losses and provision on inventories** | **Impairment loss for bad and doubtful debts** | **Undistributed earnings of PRC subsidiaries** *(note 7(a)(vi))* | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2008 | (4,155) | 263 | 616 | (3) | — | (3,279) |
| (Credited)/charged to profit or loss | (1,509) | (622) | (3,499) | (575) | 1,368 | (4,837) |
| At 31 March 2009 | (5,664) | (359) | (2,883) | (578) | 1,368 | (8,116) |
| At 1 April 2009 | (5,664) | (359) | (2,883) | (578) | 1,368 | (8,116) |
| Charged/(credited) to profit or loss | 939 | 139 | (1,582) | (869) | (100) | (1,473) |
| Exchange adjustments | (14) | — | — | (1) | — | (15) |
| At 31 March 2010 | (4,739) | (220) | (4,465) | (1,448) | 1,268 | (9,604) |

## 28 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

### (b) Deferred tax assets and liabilities recognised: (continued)

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows: (continued)

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Representing: | | |
| Net deferred tax assets recognised on the balance sheet | **(11,263)** | (10,146) |
| Net deferred tax liabilities recognised on the balance sheet | **1,659** | 2,030 |
| | **(9,604)** | (8,116) |

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $128,331,000 (2009: $55,527,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in unrecognised tax losses is an amount of $59,092,000 (2009: $28,000) which can be carried forward up to five years from the year in which the loss originated. The remaining balance does not expire under the current tax legislation.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 29 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | | The Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Share capital** | **Share premium** *(note 29(d)(i))* | **Contributed surplus** *(note 29(d)(ii))* | **Share-based capital reserve** *(note 29(d)(vi))* | **Accumulated losses** | **Total equity** |
| | *Note* | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2008 | | — | — | — | — | (1,505) | (1,505) |
| Issue of shares upon Reorganisation | | 20,000 | — | 133,424 | — | — | 153,424 |
| Capitalisation issue | | 55,000 | (55,000) | — | — | — | — |
| Shares issued under the placing and global offering | | 25,000 | 530,000 | — | — | — | 555,000 |
| Share issuance costs | | — | (71,819) | — | — | — | (71,819) |
| Equity-settled share-based transactions | | — | — | — | 6,869 | — | 6,869 |
| Repurchases of own shares | | | | | | | |
| — par value paid | | (776) | — | — | — | — | (776) |
| — premium paid | | — | (2,990) | — | — | — | (2,990) |
| Dividend paid | *29(b)* | — | — | — | — | (40,000) | (40,000) |
| Profit for the year | *10* | — | — | — | — | 3,079 | 3,079 |
| At 31 March 2009 | | 99,224 | 400,191 | 133,424 | 6,869 | (38,426) | 601,282 |
| At 1 April 2009 | | 99,224 | 400,191 | 133,424 | 6,869 | (38,426) | 601,282 |
| Issue of shares under share placement | | 7,000 | 47,600 | — | — | — | 54,600 |
| Share issuance costs | | — | (1,911) | — | — | — | (1,911) |
| Equity-settled share-based transactions | | — | — | — | 10,118 | 2,569 | 12,687 |
| Shares issued under share option schemes | | 5,430 | 32,347 | — | (1,815) | — | 35,962 |
| Loss for the year | *10* | — | — | — | — | (237,631) | (237,631) |
| At 31 March 2010 | | 111,654 | 478,227 | 133,424 | 15,172 | (273,488) | 464,989 |

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (b) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Special dividend in respect of the previous financial year, approved and paid during the year, of $Nil per share (2009: $0.04 per share) | **—** | 40,000 |

### (c) Share capital

#### *(i) Authorised and issued share capital*

| | **2010** **Number of shares** **'000** | **Amount** **HK$'000** | 2009 Number of shares '000 | Amount HK$'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of $0.10 each | **3,000,000** | **300,000** | 3,000,000 | 300,000 |
| **Issued and fully paid:** | | | | |
| At the beginning of the year | **992,238** | **99,224** | — | — |
| Shares issued under share placement | **70,000** | **7,000** | — | — |
| Shares issued under share option schemes | **54,300** | **5,430** | — | — |
| Shares issued under the placing and global offering | **—** | **—** | 250,000 | 25,000 |
| Capitalisation issue | **—** | **—** | 550,000 | 55,000 |
| Issue of shares upon Reorganisation | **—** | **—** | 200,000 | 20,000 |
| Shares repurchased | **—** | **—** | (7,762) | (776) |
| At the end of the year | **1,116,538** | **111,654** | 992,238 | 99,224 |

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

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (c) Share capital (continued)

#### *(i) Authorised and issued share capital (continued)*

For the purpose of these financial statements, share capital in the consolidated balance sheet as at 1 April 2008 represented the aggregate amount of the paid up capital of the companies comprising the Group.

On 23 April 2008, the Company issued 199,999,900 shares to acquire the entire issued share capital of Artist Star International Development Limited from the Controlling Shareholders through a share swap and became the holding company of the companies comprising the Group.

Pursuant to a written resolution on 23 April 2008, the Company allotted and issued a total of 550,000,000 shares credited as fully paid at par to the then shareholders of the Company at the close of business on 25 April 2008 in proportion to their respective shareholdings by way of capitalisation of a sum of $55,000,000, conditional on the initial public offering of the Company's shares in Hong Kong.

On 16 May 2008, a total number of 250,000,000 shares were issued to the public at $2.22 per share for cash totalling approximately $555,000,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of $71,819,000, was credited to the share premium account of the Company.

On 15 December 2009, the Company entered into a placing agreement with a placing agent in respect of the placement of 70,000,000 shares at a price of $0.78 per share. The placement was completed on 28 December 2009. The excess of the placing price over the par value of the shares, net of share issuing expenses of $1,911,000, was credited to the share premium account of the Company.

During the year, options were exercised to subscribe for 54,300,000 (2009: Nil) shares of the Company at total consideration of $35,962,000 (2009: $Nil) of which $5,430,000 was credited to share capital and the balance of $30,532,000 was credited to the share premium account. $1,815,000 has been transferred from the share-based capital reserve to the share premium account in accordance with the policy set out in notes 2(r)(ii) and (s).

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (c) Share capital (continued)

#### (ii) *Purchase of own shares*

During the year ended 31 March 2009, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Date of repurchase | Number of shares repurchased | Highest price paid per share HK$ | Lowest price paid per share HK$ | Aggregate price paid HK$'000 |
|---|---|---|---|---|
| 14 October 2008 | 1,080,000 | 0.480 | 0.400 | 495 |
| 15 October 2008 | 304,000 | 0.455 | 0.435 | 135 |
| 17 October 2008 | 1,250,000 | 0.410 | 0.380 | 496 |
| 20 October 2008 | 429,000 | 0.400 | 0.385 | 169 |
| 21 October 2008 | 438,000 | 0.425 | 0.405 | 182 |
| 22 October 2008 | 264,000 | 0.425 | 0.395 | 111 |
| 24 October 2008 | 437,000 | 0.430 | 0.405 | 182 |
| 07 January 2009 | 247,000 | 0.580 | 0.580 | 143 |
| 09 January 2009 | 2,331,000 | 0.590 | 0.520 | 1,315 |
| 12 January 2009 | 430,000 | 0.550 | 0.530 | 234 |
| 29 January 2009 | 18,000 | 0.460 | 0.460 | 8 |
| 30 January 2009 | 534,000 | 0.550 | 0.500 | 283 |
| | 7,762,000 | | | 3,753 |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid and the expenses directly attributable to the repurchase were charged against the share premium account of the Company in accordance with the Bermuda Companies Act 1981 on the repurchase of the shares.

During the year ended 31 March 2010 and up to the date of these financial statements, there were no further repurchase of its own shares by the Company.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (c) Share capital (continued)

*(iii) Terms of unexpired and unexercised share options at the balance sheet date*

| Tranche | Exercise period | Exercise price | 2010 Number of options | 2009 Number of options |
|---|---|---|---|---|
| | | HK$ | | |
| A | 16 May 2008 to 15 May 2009 | 1.887 | — | 2,535,000 |
| | 16 May 2009 to 15 May 2010 | 1.887 | 2,505,000 | 2,535,000 |
| | 16 May 2010 to 15 May 2011 | 1.887 | 3,340,000 | 3,380,000 |
| B | 27 March 2009 to 26 March 2019 | 0.371 | — | 5,500,000 |
| C | 27 July 2009 to 26 July 2011 | 0.830 | 60,400,000 | — |
| D | Note 27(a)(i) | 0.830 | 9,400,000 | — |
| E | Note 27(a)(ii) | 0.830 | 9,700,000 | — |
| F | 20 October 2009 to 19 October 2011 | 0.680 | 2,500,000 | — |
| G | 20 January 2010 to 19 October 2011 | 0.680 | 47,300,000 | — |
| | | | 135,145,000 | 13,950,000 |

Each option holder is entitled to subscribe for one ordinary share in the Company. Further details of these options are set out in note 27 to these financial statements.

### (d) Nature and purpose of reserves

*(i) Share premium*

Under the Bye-laws of the Company, share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

*(ii) Contributed surplus*

The contributed surplus of the Company represented the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the Reorganisation. Under the Bermuda Companies Act 1981, the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; and (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

*(iii) Other reserve*

The other reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries comprising the Group prior to the Reorganisation.

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (d) Nature and purpose of reserves (continued)

#### *(iv) Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong which are dealt with in accordance with the accounting policies as set out in note 2(w).

#### *(v) PRC statutory reserves*

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

— *General reserve fund*

Subsidiaries in the PRC are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity holders.

General reserve fund can be used to make good previous years' losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the subsidiary's registered capital.

— *Enterprise expansion fund*

Subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of appropriation is decided by the directors of the subsidiaries.

Enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the relevant subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

#### *(vi) Share-based capital reserve*

The share-based capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors, employees, advisors and consultants of the Company recognised in accordance with the accounting policy adopted for share-based payments in notes 2(r)(ii) and (s).

#### *(vii) Legal reserve*

In accordance with Macao Commercial Code, the Company's subsidiary incorporated in Macao is required to appropriate 25% of net profit to legal reserve until the balance of the reserve reaches 50% of the subsidiary's registered capital. Legal reserve is not distributable to equity holders.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 29 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (e) Distributable reserve

At 31 March 2010, the aggregate amount of reserve available for distribution to equity shareholders of the Company was $Nil (2009: $94,998,000).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits of other stakeholders, and to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the debt level by issuing new shares or selling assets to reduce debt.

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratio of the Group was 15% at 31 March 2010 (2009: 10%). The Group had time deposits and cash balances as at 31 March 2010 amounting to $191,431,000 (2009: $277,897,000).

Some of the Group's banking facilities are subject to capital requirements imposed by certain creditor banks. During the year ended 31 March 2009, the Group did not comply with the covenants in respect of capital requirements imposed by a creditor bank. Upon discovery of the breach, the directors of the Company renegotiated with the related creditor bank and obtained a waiver in July 2009.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade debtors, credit evaluations are performed on all customers requiring credit over a certain amount. These debtors are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 9% (2009: 6%) and 28% (2009: 22%) of the total trade debtors was due from the Group's largest customer and the five largest customers respectively.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (a) Credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Credit risks and exposure are closely controlled and monitored on an on-going basis by management of the Group. Management set appropriate credit limits and terms after credit evaluations have been performed on customers on a case by case basis. Overdue status of customers is reviewed on a weekly basis. Management is well aware of the concentration of credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20(a).

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

| | **The Group 2010 Contractual undiscounted cash outflow** | | | |
|---|---|---|---|---|
| | **Within 1 year or on demand HK$'000** | **More than 1 year but less than 2 years HK$'000** | **Total HK$'000** | **Balance sheet carrying amount HK$'000** |
| Trade and other payables | **61,486** | **—** | **61,486** | **61,486** |
| Finance lease liabilities | **263** | **241** | **504** | **464** |
| Convertible bonds | **22,400** | **—** | **22,400** | **15,620** |
| | **84,149** | **241** | **84,390** | **77,570** |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (b) Liquidity risk (continued)

| | The Group 2009 Contractual undiscounted cash outflow | | | |
|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total HK$'000 | Balance sheet carrying amount HK$'000 |
| Trade and other payables | 49,501 | — | 49,501 | 49,501 |
| Bank loans | 426 | — | 426 | 420 |
| Finance lease liabilities | 184 | — | 184 | 181 |
| | 50,111 | — | 50,111 | 50,102 |

### (c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

#### *(i) Interest rate profile*

The following table details the interest rate profile of the Group's total interest-bearing borrowings at the balance sheet date.

| | **The Group** | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Effective interest rate %** | **HK$'000** | Effective interest rate % | HK$'000 |
| Fixed rate borrowings: | | | | |
| — Obligations under finance leases | **2.21** | **464** | 3.59 | 181 |
| — Convertible bonds | **55.03** | **15,620** | — | — |
| | | **16,084** | | 181 |
| Variable rate borrowings: | | | | |
| — Bank loans | **—** | **—** | 2.44 | 420 |
| Total interest-bearing borrowings | | **16,084** | | 601 |

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (c) Interest rate risk (continued)

#### *(ii) Sensitivity analysis*

Sensitivity analysis on interest rate risk at 31 March 2010 is not presented because all borrowings are fixed rate borrowings. Sensitivity analysis on interest rate risk at 31 March 2009 is not presented because the balance of total interest-bearing borrowings at 31 March 2009 is insignificant.

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

#### *(i) Exposure to currency risk*

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate.

**The Group**
**Exposure to foreign currencies (expressed in HK$'000)**

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **United States dollars** | **Renminbi** | **Hong Kong dollars** | United States dollars | Renminbi | Hong Kong dollars |
| Cash and cash equivalents | **161,105** | **437** | **181** | 29,883 | 1,426 | 98,674 |
| Trade and other receivables | **19,769** | **—** | **—** | 15,712 | — | — |
| Trade and other payables | **(5,085)** | **—** | **—** | (7,166) | — | — |
| Net exposure arising from recognised assets and liabilities | **175,789** | **437** | **181** | 38,429 | 1,426 | 98,674 |

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (d) Currency risk (continued)

#### *(ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially uneffected by any changes in movement in value of the United States dollar against other currencies.

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss after tax and accumulated losses HK$'000** | **Effect on other components of equity HK$'000** | Increase/ (decrease) in foreign exchange rates | Effect on loss after tax and accumulated losses HK$'000 | Effect on other components of equity HK$'000 |
| Renminbi | **5%** | **(22)** | **—** | 5% | (71) | — |
| | **(5)%** | **22** | **—** | (5)% | 71 | — |
| Hong Kong dollar | **5%** | **(8)** | **—** | 5% | (4,933) | — |
| | **(5)%** | **8** | **—** | (5)% | 4,933 | — |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' loss after tax and equity measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure these financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 18). All of these investments are listed.

The Group's listed investments are listed on the Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the stock market index and other industry indicators, as well as the Group's liquidity needs.

At 31 March 2010, it is estimated that an increase/decrease of 5% (2009: 5%) in the relevant stock market index (for listed investments), with all other variables held constant, would have decreased/increased the Group's loss after tax (and accumulated losses) and other components of consolidated equity as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| Change in the relevant equity price risk variable: | | **Effect on loss after tax and accumulated losses HK$'000** | **Effect on other components of equity HK$'000** | | Effect on loss after tax and accumulated losses HK$'000 | Effect on other components of equity HK$'000 |
| Increase | **5%** | **(1,252)** | **—** | 5% | — | — |
| Decrease | **(5)%** | **1,252** | **—** | (5)% | — | — |

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the balance sheet date, the Group is exposed to this risk through the conversion rights attached to the Convertible Bonds issued by the Company as disclosed in note 23.

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (f) Fair value

#### *(i) Financial instruments carried at fair value*

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

— Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

— Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

| | The Group and the Company | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Assets** | | | | |
| Trading securities | **21,126** | **—** | **—** | **21,126** |
| **Liabilities** | | | | |
| Derivative financial instruments: | | | | |
| — Embedded financial derivatives in Convertible Bonds | **—** | **—** | **2,644** | **2,644** |

The movement during the year in the balance of Level 3 fair value measurements is as follows:

| | **The Group and the Company**<br>HK$'000 |
|---|---|
| Embedded financial derivatives in Convertible Bonds: | |
| At 1 April 2009 | — |
| Issued during the year | 3,653 |
| Changes in fair value recognised in profit or loss during the year | (1,009) |
| At 31 March 2010 | 2,644 |
| Total gains for the year included in profit or loss | 1,009 |

The gains arising from the remeasurement of the embedded financial derivatives in the Convertible Bonds are presented in "Other net loss" in the consolidated income statement.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (f) Fair value (continued)

#### *(ii) Fair values of financial instruments carried at other than fair values*

The carrying amounts of significant financial assets and liabilities carried at cost or amortised cost approximate to their respective fair values as at 31 March 2010 and 2009 except for amounts due to related companies which are interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values of such balances.

### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

#### *(i) Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### *(ii) Interest-bearing loans and borrowings and finance lease liabilities*

The fair values are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

#### *(iii) Convertible bonds*

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at each balance sheet date to determine the fair value of the embedded financial derivatives of the convertible bonds that are separated from the host debt contract. The basis for determining the fair value is disclosed in note 23.

#### *(iv) Other financial assets and liabilities*

The carrying values of trade and other receivables, cash and cash equivalents and trade and other payables are estimated to approximate their fair values based on the nature or short-term maturity of these instruments.

Fair value estimates are made at a specific point of time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## 31 MAJOR NON-CASH TRANSACTION

During the year, the Group acquired a motor vehicle for $623,000 of which $482,000 was financed by a new finance lease (see note 14(b)).

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 32 COMMITMENTS

(a) Capital commitments outstanding at 31 March 2010 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2010** **HK$'000** | 2009 HK$'000 |
| Contracted for | **9,673** | 1,599 |
| Authorised but not contracted for | **—** | 6,804 |
| | **9,673** | 8,403 |

(b) At 31 March 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Properties HK$'000** | **Billboards HK$'000** | Properties HK$'000 | Billboards HK$'000 |
| Within 1 year | **35,185** | **1,862** | 63,228 | 1,714 |
| After 1 year but within 5 years | **24,017** | **—** | 60,919 | — |
| | **59,202** | **1,862** | 124,147 | 1,714 |

The Group leases a number of properties under operating leases in respect of retail shops, offices and warehouses. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. The operating lease rentals of certain outlets are based on the higher of minimum guaranteed rental and sales level based rental. The above operating lease commitments represent commitments for fixed rental and minimum guaranteed rental.

The Group also leases a number of billboards for advertising purpose. The leases for the billboards typically run for an initial period of one year with an option to renew the lease when all terms are renegotiated.

(c) At 31 March 2010, the Group committed to pay royalties for the usage of several brands for manufacture and trading of fashion accessories with a minimum guaranteed royalty payments as follows:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Within 1 year | **2,001** | — |
| After 1 year but within 5 years | **3,207** | — |
| | **5,208** | — |

## 32 COMMITMENTS (continued)

(d) On 20 March 2010, the Company entered into a binding contract with an advertising company to conduct a two-year advertising plan in Hong Kong covering the period from 15 April 2010 to 14 April 2012. The Company has committed to pay $23,000,000 per year according to the contract in which $10,000,000 has been prepaid during the year ended 31 March 2010. The Company has an option to continue or terminate the second year contract upon completion of the first year service.

## 33 CONTINGENT LIABILITIES

### Financial guarantees issued

As at the balance sheet date, the Company has issued guarantees to certain banks in respect of banking facilities granted to certain wholly owned subsidiaries which remain in force so long as the subsidiaries have drawn down under the banking facilities.

Certain cross guarantee arrangements issued by the Company and certain of its wholly owned subsidiaries to certain banks in respect of banking facilities granted to the Group which remain in force so long as the Group has drawn down under the banking facilities. Under each of these guarantees, the Company and all the subsidiaries that are a party 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.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the above guarantees. The maximum liability of the Company at the balance sheet date under the sole guarantee by the Company is the aggregate amount of the facilities drawn down by the subsidiaries of $Nil (2009: $420,000). The maximum liability of the Company at the balance sheet date under the cross guarantee is the aggregate amount of the facilities drawn down by all the subsidiaries that are covered by the cross guarantee, being $1,619,000 (2009: $1,335,000).

## 34 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in other notes to the consolidated financial statements, the Group entered into the following material related party transactions during the year.

### (a) Significant related party transactions

As at the balance sheet date, the Group had the following balances with related parties:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Amount due to: | | |
| — Artini Jewelry Mfg. Limited | **89** | 89 |
| — Gain Win Holdings Limited | **18** | 18 |

The balances with related parties are unsecured, interest-free and repayable on demand.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Short-term employee benefits | **15,945** | 10,484 |
| Post-employment benefits | **72** | 82 |
| Equity-compensation benefits | **5,681** | 5,516 |
| | **21,698** | 16,082 |

Total remuneration is included in "staff costs" (see note 6(b)).

## 35 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 1 April 2010, the Company entered into a second subscription agreement with the Bondholder pursuant to which the Bondholder agreed to subscribe for convertible bonds with an aggregate principal amount of $20,000,000. On 13 April 2010, the subscription agreement was completed and all of the convertible bonds were issued. The Company received proceeds of $18,844,000, net of issuance cost of $1,156,000. The convertible bonds do not bear interest, are secured by a guarantee provided by a director of the Company and have a maturity date of 13 April 2011. An aggregate principal amount of $16,000,000 was subsequently converted into 19,441,323 shares of the Company up to 17 May 2010.

On 2 June 2010, the Company redeemed all of the then outstanding convertible bonds originally issued on 22 January 2010 and 13 April 2010 of aggregate principal amounts of $20,000,000 and $4,000,000 respectively. The aggregate redemption consideration was $26,880,000, calculated as 112% of the principal amounts in accordance with the subscription agreements.

(b) On 26 April 2010, the Group entered into a memorandum of undertaking to purchase 50% equity interest in a company in which the company is in the process of applying for a land use right for the development of a logistic business. The Group paid a deposit of $15,000,000 in connection with this potential business acquisition. According to the terms stated in the memorandum of undertaking, the deposit would be refunded if the company failed to obtain the land use right ninety days after date of the memorandum.

On 15 June 2010, the Group entered into a memorandum of undertaking to purchase 55% equity interest in another company which is engaged in the provision of online education service. The Group paid a deposit of $10,000,000 in connection with this potential business acquisition. According to the terms stated in the memorandum of undertaking, the deposit would be refunded by 15 August 2010 if the business acquisition was called off.

(c) On 18 June 2010, the Company entered into a placing agreement with a placing agent in respect of the placement of 83,543,000 shares at a price of $0.53 per share. The placement was completed on 29 June 2010 and the Company raised $42,728,000, net of share issuing expenses of $1,550,000.

## 35 NON-ADJUSTING POST BALANCE SHEET EVENTS (continued)

(d) On 7 July 2010, the Group entered into a letter of intent with China Post Trade Development Co. Ltd. ("CPT") in which CPT will be appointed as the exclusive agent of the Group for a period of 24 months commencing from 7 July 2010 to develop various postal related products which will be distributed in post offices of China Post Group Corporation. On the same date, the Group entered into a consignment contract with GuangDong Post Philately Corporation ("GuangDong Post") in which GuangDong Post will sell the Guangzhou Asia Games licensed products supplied and manufactured by the Group through its franchise shops.

(e) On 15 July 2010, the Group entered into a sale and purchase agreement for the disposal of an investment property in Hong Kong for a total consideration of $5,000,000.

(f) Subsequent to the balance sheet date and up to the date of these financial statements, 44,850,000 share options under the Share Option Scheme were exercised (see note 27(b)).

## 36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 March 2010 to be Fully Gain Company Ltd. (formerly known as Fully Gain Worldwide Limited), which was incorporated in the BVI.

## 37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 23, 27 and 30 contain information about the assumptions and their risk factors relating to fair value of convertible bonds, equity-settled share-based financial instruments and other financial instruments. Other key sources of estimation uncertainty are as follows:

### (a) Impairment of fixed assets and intangible assets

The Group assesses annually whether fixed assets and intangible assets have any indication of impairment in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of the assets would be determined by reference to value in use and net selling price. Value in use is determined using the discounted cash flow method. Owing to inherent risk associated with estimations in the timing and magnitude of the future cash flows and net selling prices, the estimated recoverable amount of the assets may be different from its actual recoverable amount and profit or loss could be affected by accuracy of the estimations.

### (b) Impairment of trade and other receivables

If circumstances indicate that the carrying amount of trade and other receivables may not be recoverable, the assets may be considered impaired and an impairment loss may be recognised. The carrying amounts of trade and other receivables are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. The recoverable amount of trade and other receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. Owing to inherent risk associated with estimations of the recoverable amount, the actual recoverable amount of the receivables may be different from the estimations and profit or loss could be affected by the accuracy of the estimations.

# Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

## 37 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (c) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analyses, historical consumption trends and management experience and judgement. Based on this review, write down of inventories would be made when the carrying amounts of inventories decline below their estimated net realisable value. Owing to changes in market trend, actual sales may be different from estimation and profit or loss could be affected by the accuracy of this estimation.

### (d) Provision for income tax

Provision for income tax is made based on the taxable income for the year as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretations of the relevant tax rules and regulations. The amount of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

## 38 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements* and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. Further details of these developments are disclosed in note 3.

## 39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 MARCH 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2010 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 3 (Revised), *Business combinations* | 1 July 2009 |
| Amendments to HKAS 27, *Consolidated and separate financial statements* | 1 July 2009 |
| HK(IFRIC) 17, *Distributions of non-cash assets to owners* | 1 July 2009 |
| Amendments to HKAS 39, *Financial instruments: Recognition and measurement — Eligible hedged items* | 1 July 2009 |
| Improvements to HKFRSs (2009) | 1 July 2009 or 1 January 2010 |
| Amendments to HKFRS 2, *Share-based payment — Group cash-settled share-based payment transactions* | 1 January 2010 |