ARTINI

ARTINI CHINA CO. LTD.
雅天妮中國有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 789)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

The board (the "Board") of directors (the "Directors") of Artini China Co. Ltd. (the "Company") hereby presents the unaudited consolidated interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2010. The interim financial statements have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 September 2010

		Unaudited For the six months ended 30 September	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Turnover	4	**200,281**	182,255
Cost of sales		**(100,022)**	(84,080)
Gross profit		**100,259**	98,175
Other revenue	5	**978**	1,266
Other net gains	6	**8,833**	1,492
Selling and distribution costs		**(94,148)**	(115,921)
Administrative expenses		**(30,828)**	(13,586)
Other operating expenses		**(7,455)**	(544)
Loss from operations		**(22,361)**	(29,118)

		Unaudited For the six months ended 30 September	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Finance costs	7(a)	**(1,815)**	(6)
Loss before taxation	7	**(24,176)**	(29,124)
Income tax	8	**(2,119)**	(1,952)
Loss for the period		**(26,295)**	(31,076)
Loss per share *(HK$)*	10		
Basic and diluted		**(0.022)**	(0.031)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2010

	Unaudited For the six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
Loss for the period	**(26,295)**	(31,076)
Other comprehensive income:		
Exchange differences on translation of financial statements of overseas subsidiaries	**1,244**	—
Total comprehensive income for the period	**(25,051)**	(31,076)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2010

	Note	As at 30 September 2010 (unaudited) HK$'000	As at 31 March 2010 (restated) HK$'000
Non-current assets			
Fixed assets			
— Investment property		—	3,492
— Property, plant and equipment		**93,214**	94,863
Intangible assets		**2,854**	2,935
Interest in an associate		**410**	410
Rental deposits		**6,834**	7,993
Deferred tax assets		**11,291**	11,263
		114,603	120,956
Current assets			
Trading securities		**52,273**	21,126
Inventories		**83,742**	70,311
Trade and other receivables	11	**187,082**	141,735
Current tax recoverable		**968**	964
Cash and cash equivalents		**179,694**	191,431
		503,759	425,567
Current liabilities			
Trade and other payables	12	**59,910**	61,486
Other borrowings	13	**13,209**	—
Convertible bonds	14	—	15,620
Embedded financial derivatives		—	2,644
Obligations under finance leases		**1,306**	233
Current tax payable		**1,673**	1,458
		76,098	81,441
Net current assets		**427,661**	344,126
Total assets less current liabilities		**542,264**	465,082

	Note	As at 30 September 2010 (unaudited) HK$'000	As at 31 March 2010 (restated) HK$'000
Non-current liabilities			
Obligations under finance leases		**1,821**	231
Deferred tax liabilities		**1,660**	1,659
NET ASSETS		**538,783**	463,192
CAPITAL AND RESERVES			
Share capital	15	**126,437**	111,654
Reserves		**412,346**	351,538
TOTAL EQUITY		**538,783**	463,192

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 COMPANY BACKGROUND

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

2 BASIS OF PREPARATION

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009/10 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010/11 annual financial statements. Details of these changes in accounting policies are set out in note 3. This interim financial report should be read in conjunction with the 2009/10 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the 2009/10 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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

The financial information relating to the financial year ended 31 March 2010 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2010 are available from the Company's registered office.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in preparing the unaudited interim financial report for the six months ended 30 September 2010 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except for the impact of the adoption of the new standards, amendments and interpretations which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 April 2010:

HKFRS 2 (Amendment)	Share-based Payment (effective for annual periods beginning on or after 1 July 2009)
HKFRS 3 (Revised)	Business Combinations (effective for annual period beginning on or after 1 July 2009)
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009)
HKFRS 8 (Amendment)	Operating Segments (effective for annual periods beginning on or after 1 January 2010)
HKAS 1 (Amendment)	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010)
HKAS 7 (Amendment)	Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010)
HKAS 17 (Amendment)	Leases (effective for annual periods beginning on or after 1 January 2010)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
HKAS 36 (Amendment)	Impairment of Assets (effective for annual periods beginning on or after 1 January 2010)
HKAS 38 (Amendment)	Intangible Assets (effective for annual periods beginning on or after 1 July 2009)
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010)
HK(IFRIC) — Int 9 (Amendment)	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) — Int 16 (Amendment)	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
HK(IFRIC) — Int 18	Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009)
HKICPA's annual improvements project	Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 July 2009)

The Group has assessed the impact for the adoption of these amendments to standards and interpretation and considered that there was no significant effect on the Group's interim financial information except for HKAS 17 (amendment) as set out below.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Interests in leasehold land held for own use under operating leases", and amortised over the lease term.

- HKAS 17 (amendment) has been applied for annual periods beginning 1 April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land as finance lease retrospectively. As a result of the reassessment, the Group has reclassified the leasehold land from operating lease to finance lease.

- The effect of the adoption of the amendment on the consolidated financial information as at 1 April 2010 and 1 April 2009 are to increase property, plant and equipment by HK$20,090,000 and HK$20,962,000 respectively with corresponding reductions in interests in leasehold land held for own use under operating leases. In addition, the depreciation charges on assets held for use under finance lease have increased by HK$462,000 and HK$451,000 with corresponding reduction in the depreciation charges on other assets for the six months period ended 30 September 2010 and 2009 respectively.

Other new standards, amendments to standards and interpretations, which are mandatory for the first time for the financial year beginning 1 April 2010, are not currently relevant to the Group or do not have material impact on the Group for the period ended 30 September 2010.

The Group has not early adopted the new standards, amendments to standards and interpretations, which have been issued but are not effective for the financial year beginning 1 April 2010. The Group has commenced an assessment of the related impact but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will be resulted.

4 SEGMENT REPORTING

The segment information for the six months ended 30 September 2010 and 2009 is presented below:

	Six months ended 30 September 2010 — unaudited					
	Retailing and distribution					
	Mainland China	**Hong Kong and Macao**	**Sub-total**	**CDM**	**Inter-segment elimination**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue from external customers	**60,802**	**13,009**	**73,811**	**126,470**	**—**	**200,281**
Inter-segment revenue	**—**	**—**	**—**	**19,706**	**(19,706)**	**—**
Reportable segment revenue	**60,802**	**13,009**	**73,811**	**146,176**	**(19,706)**	**200,281**
Reportable segment profit/(loss)	**(16,512)**	**(3,689)**	**(20,201)**	**25,475**	**—**	**5,274**
Unallocated expenses						**(31,569)**
Loss for the period						**(26,295)**

	Six months ended 30 September 2009 — unaudited					
	Retailing and distribution					
	Mainland China	Hong Kong and Macao	Sub-total	CDM	Inter-segment elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	69,645	11,765	81,410	100,845	—	182,255
Inter-segment revenue	—	—	—	17,195	(17,195)	—
Reportable segment revenue	69,645	11,765	81,410	118,040	(17,195)	182,255
Reportable segment profit/(loss)	(30,569)	(5,530)	(36,099)	17,545	—	(18,554)
Unallocated expenses						(12,522)
Loss for the period						(31,076)

5 OTHER REVENUE

	Unaudited For the six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
Dividend income from listed securities	**340**	—
Services income	**196**	666
Rental income	**75**	125
Interest income	**163**	255
Others	**204**	220
	978	1,266

6 OTHER NET GAINS

	Unaudited For the six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
Net exchange losses	**(200)**	(44)
Net loss on disposal of property, plant and equipment	**(102)**	—
Net realised and unrealised gains on trading securities	**6,835**	1,536
Net gain on change in fair value of embedded financial derivatives	**757**	—
Gain on disposal of investment property	**1,543**	—
	8,833	1,492

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Unaudited For the six months ended 30 September	
	2010	2009 (restated)
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**—**	6
Interest on convertible bonds	**1,710**	—
Finance charges on obligations under finance leases	**105**	—
	1,815	6
(b) Other items:		
Depreciation		
— assets held for use under finance lease	**842**	451
— other assets	**8,943**	12,085
Impairment losses on trade and other receivables	**1,048**	—
Advertising and promotion expenses	**6,909**	8,162
Operating lease charges in respect of properties:		
— minimum lease payments	**25,879**	34,320
— contingent rent	**7,264**	7,684
Operating lease charges in respect of billboards	**8,857**	8,153
Realised loss on conversion of convertible bonds	**2,945**	—
Realised loss on redemption of convertible bonds	**3,759**	—

8 INCOME TAX

	Unaudited Six months ended 30 September 2010 HK$'000	2009 HK$'000
Current tax — PRC Enterprise income tax		
Provision for the period	**2,119**	1,952

Notes:

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

(ii) No provision for Hong Kong Profits Tax has been made as there was no assessable profit in Hong Kong for the period.

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

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

(v) Pursuant to the Enterprise Income Tax Law of the 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 are subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Group is subject to a withholding tax at the rate of 5% for any dividend payments from certain of the Group's PRC subsidiaries.

9 DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 September 2010 (six months ended 30 September 2009: Nil).

10 LOSS PER SHARE

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

(a) Basic loss per share

	Unaudited For the six months ended 30 September	
	2010	2009
Loss attributable to equity shareholders *(HK$'000)*	**26,295**	31,076
Weighted average number of ordinary shares		
At 1 April	**1,116,538,000**	992,238,000
Effect of shares issued during the period	**100,025,869**	2,898,352
At 30 September	**1,216,563,869**	995,136,352
Basic loss per share *(HK$)*	**0.022**	0.031

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the period ended 30 September 2010 and 2009 because the Company's share option had an anti-diluted effect.

11 TRADE AND OTHER RECEIVABLES

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

	At 30 September 2010 (unaudited) ***HK$'000***	At 31 March 2010 (audited) *HK$'000*
Current	**29,353**	25,655
Less than 3 months past due	**40,066**	11,394
3 to 6 months past due	**3,610**	2,517
Over 6 months past due	**649**	870
Total debtors, net of impairment losses	**73,678**	40,436
Deposits, prepayments and other receivables	**113,404**	101,299
	187,082	141,735

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

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

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

12 TRADE AND OTHER PAYABLES

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

	30 September 2010 (unaudited) *HK$'000*	31 March 2010 (audited) *HK$'000*
Due within 3 months or on demand	**5,130**	8,268
Due after 3 months but within 6 months	**52**	53
Due after 6 months	**375**	8
Trade creditors	**5,557**	8,329
Receipts in advance	**23,253**	17,611
VAT and other tax payables	**3,629**	6,170
Provision for onerous contracts	**2,103**	2,094
Accrued charges and other payables	**25,261**	27,175
Amounts due to related parties	**107**	107
	59,910	61,486

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

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

13 OTHER BORROWINGS

Other borrowings represent securities margin loans granted by a securities broker. The margin loans are secured by the Group's trading securities and bear interest at prime rate plus 3%.

14 CONVERTIBLE BONDS

As at 1 April 2010, the Company had convertible bonds with principal amount of HK$20,000,000 outstanding which were issued on 22 January 2010 (the "First Lot CB").

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 HK$20,000,000. On 13 April 2010, the subscription agreement was completed and all of the convertible bonds were issued (the "Second Lot CB"). The Company received proceeds of HK$18,844,000 from the issue of the Second Lot CB, net of issuance cost of HK$1,156,000.

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 Second Lot CB are interest-free, 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 HK$16,000,000 was converted into 19,441,323 ordinary shares of the Company up to 17 May 2010.

On 2 June 2010, the Company redeemed all the convertible bonds of the First Lot CB and the remaining Second Lot CB with principal amount of HK$20,000,000 and HK$4,000,000 respectively at aggregate consideration of HK$26,880,000.

15 SHARE CAPITAL

	(unaudited) At 30 September 2010 Number of shares '000	(unaudited) At 30 September 2010 Amount HK$'000	(audited) At 31 March 2010 Number of shares '000	(audited) At 31 March 2010 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Issued and fully paid:				
At the beginning of the period	**1,116,538**	**111,654**	992,238	99,224
Shares issued under share placement	**83,543**	**8,354**	70,000	7,000
Shares issued under share option schemes	**44,850**	**4,485**	54,300	5,430
Shares issued upon conversion of convertible bond	**19,441**	**1,944**	—	—
At the end of the period	**1,264,372**	**126,437**	1,116,538	111,654

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

During the six months ended 30 September 2010, the Company issued 44,850,000 shares at HK$0.697 per share pursuant to exercise of options under the share option scheme by the option holders, resulting in the issue of 44,850,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$31,260,450.

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 HK$0.53 per share. The placement was completed on 29 June 2010. The excess of the placing price over the par value of the shares, net of share issuing expenses of HK$1,550,000 was credited to the share premium account of the Company.

During the six months ended 30 September 2010, the holders of the Second Lot CB exercised their rights to convert the aggregate principal amount of HK$16,000,000 into fully-paid ordinary shares. Exercise in full of such convertible bonds resulted in the issue of 19,441,323 ordinary shares.

16 CAPITAL COMMITMENTS

	30 September 2010 (unaudited) *HK$'000*	31 March 2010 (audited) *HK$'000*
Contracted for	**3,988**	9,673

17 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 22 November 2010, there was a fire at the Group's production plant in Hai Feng, PRC. All of the Group's production lines were unaffected, except that a workshop and an insignificant amount of inventories located in the workshop at the time of the fire have been destroyed. In this regard, the Group will minimise disruption to the Group's production process by considering outsourcing the relevant process. The Group has reported the matter to its insurer and is still in the progress of assessing the relevant loss.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's macroeconomic environment maintained its growth momentum on the whole during the first half of 2010. However, according to the economic data published by the National Bureau of Statistics of China, China's economy has encountered a sluggish growth of 9% in the third quarter, representing a growth of merely 9.9% for the first nine months of this year, which is the lowest since 2005. However, with the pull back in the economic growth and the inflation in the Mainland, the total domestic retail sales of social consumers recorded a growth of 22% in the first three quarters and consumer price index (CPI) recorded a growth of 7%, indicating that the retail business and consumer's confidence in China remain positive, and that the strong demand for trendy accessories will boost the development in retail industry of the Group.

With a view to capturing the ongoing growth trend in the Mainland consuming market, during the period under review, the Group had continued to undergo business restructuring, adjusting to new operating policies and strengthening the distributorship business model so as to expand its sales network in China. We will accelerate the growth rate of retail outlets in the short run, and also effectively control the costs to maximise the shareholders' returns.

BUSINESS REVIEW

For the six months ended 30 September 2010 (the "Period"), the Group recorded a total turnover of approximately HK$200,281,000 (2009: HK$182,255,000), representing an increase of 9.9% as compared with the same period last year. The increase was mainly due to the previous undergoing of the strategic restructure of overall business development and the increase in CDM business. The gross profit was HK$100,259,000 (2009: HK$98,175,000), representing an increase of 2.1% as compared with the same period last year. The loss attributable to the equity holders of the Company during the period under review was HK$26,295,000 (2009: loss: HK$31,076,000). The reduction in loss was mainly contributed by the effective cost control for the Period. The loss per share was HK$0.022 (2009: HK$0.031).

Retail Business

The Group adopted the "multi-brand retail business strategy", which encompassed brands such as "Artini", "Q'ggle", "Q'ggle Lingerie", "NBA", "Barbie" and "Disney", etc. During the Period under review, the Group became the first fashion accessories brand to cooperate with China Post Trade Development Co. Ltd. (the "CPT"), which is an authorised representative of GuangDong Post Advertising Co. Ltd. (a wholly-owned subsidiary of China Post Group Corporation (the "China Post"), to develop various postal related products based on Artini's accessory products. There are more than 60,000 post offices of China Post throughout the country. The Group is permitted to use post offices designated by China Post for direct mail order, and developed online sales platforms to sell our products. The Group also held ongoing marketing activities for the customers of China Post for promoting their products. Meanwhile, GuangDong Post Philately Corporation (廣東省集郵局) sold the 16th

Guangzhou Asian Games licensed products which were supplied and manufactured by the Group through franchise shops which were authorised by the Guangzhou Asian Games Organising Committee.

During the period under review, the Group has continued its stringent cost control by undergoing internal resources integration, streamlining the labour structure and cutting down expenses. Meanwhile, the Group has adjusted its operating policies and strengthened the distributorship business model so as to expand the retail business. Such modifications allow the Group to establish the sales networks in a cost-effective way and downsize the operating expenses. During the period under review, the Group strategically closed down retail stores of high rentals to lower the operation costs. As at 30 September 2010, the Group had approximately 151 retail points (2009: 167 retail points) throughout the PRC, Hong Kong and Macao, covering more than 40 Chinese cities. Retail business recorded a turnover of HK$73,811,000 (2009:HK$81,410,000), accounting for approximately 36.9% of the Group's total turnover, which had decreased by 9.3% as compared with the same period last year.

1) Develop new distribution channels

Since the adoption of the new operating strategies during the period under review, the Group has accelerated in shop opening and penetrated to a majority of towns outside of the first tier cities in China. The Group granted the patent rights of its brands of "Artini" and "Q'ggle" to selected qualified and experienced agents to develop the agency's business model and at the same time expanded the number of its brand shops. Currently, the Group has 151 retail points, including approximately 33 agency shops.

In addition, the Group also vigorously developed online shopping panel and agency business models that involve lower operation cost. The Artini and Q'ggle online shopping malls were established successively in the year, which increased our interaction with the customers. Furthermore, Q'ggle has expanded its business to the QQ website in tencent.com ("Tencent") and became one of its official auction sites. The enormous number of users of Tencent has expanded our source of customer. With the brand's popularity, our online marketing business has been developed with great efficiency.

2) Customer relationship management plan

Adopting the Customer Relationship Management ("CRM") plan, the Group enhanced the loyalty of its customers. As at 30 September 2010, the number of prestige customers of Artini was 94,596, which shows an increase of 12%; the number of prestige customers of Q'ggle has increased by 11% to 39,667. Loyal customers contribute to the majority of the Group's income. We conducted ongoing analysis of our customers' shopping behaviour and preferences and developed our products according to their needs and demand while strategically planning our promotion and related activities.

Concurrent Design Manufacturing ("CDM") Business

The Group continued to cooperate closely with internationally renowned brands during the period under review, including Marks & Spencer, Disney, Playboy, Tommy Hilfiger, Givenchy, Nine West, Nautica, Guess, Amway, Carolee, Tchibo, etc. We designed and manufactured products simultaneously for these international brands and our products are sold to different parts of the world.

Regarding the PRC market, the Group has been expanding its business in the gift and premium market through providing one-stop gift and premium services to large-scaled enterprises in Mainland China. During the period under review, the Group provided gifts and premium services for China Mobile, Leconte, Amway, China Minsheng Bank, China Merchants Bank, etc. The Group also strengthened its position in the international sport events arena since its participation in the Beijing Olympic Games 2008, and was once again appointed as one of the manufacturers of Asian Games licensed merchandise during the year by designing and manufacturing more than 80 items of accessories and gifts for Guangzhou Asian Games theme.

During the Period, the Group's CDM business achieved superior performance, mainly driven by the steady growth in export businesses and the surge of souvenir businesses, and the CDM business reached 63.1% of the total turnover and HK$126,470,000 (2009: HK$100,845,000), showing an increase of 25.4% comparing with the same period last year.

FINANCIAL REVIEW

For the Period, the Group recorded a total turnover of approximately HK$200,281,000, representing an increase of 9.9% as compared with the same period in 2009. The increase was mainly due to the active expansion of agency business and gifts business and increase in CDM business. During the Period under review, turnover of the retail and CDM business were approximately HK$73,811,000 and HK$126,470,000 respectively, accounted for 36.9% and 63.1% of the total turnover of the Group. The Group's turnover was mainly derived from the PRC, European and American markets, which accounted for 32.8%,37.4% and 15.1% of the total turnover respectively, while the percentage of the same period last year were 38.8%,20.9% and 20.8% respectively.

During the Period under review, gross profit increased by 2.1% to HK$100,259,000. Gross profit margin was steadily maintained at about 50.1 % (2009: 53.9%). The cost of sales for the Period increased by 19.0% from approximately HK$84,080,000 for the six months ended 30 September 2009 to HK$100,022,000. Due to the increase in agency and distribution as well as the CDM business, the overall gross profit margin was reduced. The sales from agency and distribution in the Period accounted for 17.8% of the sales from retail business, while that of the same period in 2009 was 3.9%.

Selling and distribution costs for the Period decreased by 18.8% to HK$94,148,000, while it was HK$115,921,000 for the corresponding period in 2009. It was mainly due to the gradual closure of stores with high rental and low profitability, and shifting the Group's distribution channels towards the agency operation model and online selling platform. The moves trimmed down the rental and salary expenses, which represented approximately 58.5% of the total selling and distribution costs.

Income tax expense increased from HK$1,952,000 for the six months ended 30 September 2009 to HK$2,119,000 for the Period.

Liquidity and Financial Resources

As at 30 September 2010, the Group's margin loans and obligations under leases amounted to HK$13,209,000 and HK$3,127,000 respectively. The margin loans are secured by the trading securities at fair value of approximately HK$52,273,000 and the obligations under leases are secured by motor vehicles with net book value of approximately HK$3,962,000. As at 30 September 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$9,615,000; and (ii) cross corporate guarantees given by the Company and certain of its wholly-owned subsidiaries. As at 30 September 2010, banking facilities available to the Group amounted to HK$11,419,000 (31 March 2010: HK$11,419,000), which were utilised by the Group to the extent of HK$1,619,000 (31 March 2010: HK$1,619,000).

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 13% as at 30 September 2010 (31 March 2010: 15%). The Group had time deposits and cash balances as at 30 September 2010 amounted to HK$179,694,000 (31 March 2010: HK$191,431,000).

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

Interim Dividend

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

Foreign Exchange Exposure

The business of the Group are mainly operated in the PRC, Europe and Hong Kong with most of the Group's transactions settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Board considered that the potential foreign exchange exposure of the Group is relatively limited. Besides, the Group has not used any forward contracts or hedging products to hedge its interest rate or exchange rate risks during the Period. However, the management will continue to monitor foreign currency risks and seek to learn more about relevant information from financial institutions. During the Period under review, the Group recorded a net exchange losses of approximately HK$200,000.

Significant Investments and Acquisitions

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

Capital Commitments

As at 30 September 2010, the capital commitments contracted for were HK$3,988,000 (31 March 2010: HK$9,673,000).

Contingent Liabilities

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

Legal Proceedings and Potential Litigation

For the Period, the Group was not involved in any litigation that had a material adverse effect on its financial condition and results of operations.

Human Resources

As at 30 September 2010, the Group had 2,174 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK$46,519,000. To enhance the expertise, product knowledge, marketing skills and the overall operational management skills of its employees, the Group organised regular training and development courses for its employees, providing them with a competitive remuneration package, including salary, allowance, insurance and commission/bonus. Meanwhile, in order to create a harmonious and family-like working atmosphere for the development of employees, the Group emphasizes on listening to employees' opinion by expanding the path for staff promotion.

Investor Relations

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

Progress on Auditor's Qualified Opinion

In light of the KPMG's qualified opinion (the "Qualified Opinion") for the consolidated financial statements of the Group for the year ended 31 March 2010, the Board set up a special committee (the "Special Committee") to review the temporary payment accounts and deposits for acquisition of businesses (the "Deposits") of the Group and to look into the issues mentioned in the Qualified Opinion.

The Special Committee has held various meetings to look into items in the temporary payment accounts and the Deposits mentioned in the Qualified Opinion in the amount of HK$10.3 million and HK$37.6 million respectively as at 31 March 2010, internal controls relating to the Group's procedures for entering into commitments and documentary records. In this regard, the Special Committee has reviewed the report of factual findings on agreed-upon procedures in respect of the issues mentioned in the Qualified Opinion (the "Report") issued by Zhonglei Risk Advisory Services Limited (the "Special Consultant"). In addition, the

Company also engaged the Special Consultant to conduct a general review on the Group's general internal control system. Regarding the Qualified Opinion, the Special Committee is pleased to report that the balance in the amount of HK$10.3 million set out in the temporary payment accounts as at 31 March 2010 as mentioned in the Qualified Opinion has been fully recovered. In respect of the Deposits, HK$22.6 million has been properly accounted for and the remaining balance of HK$15 million has been re-designated as a short term loan, of which HK$3 million had been repaid as at 30 September 2010 and the remaining balance is expected to be repaid by 31 January 2011.

The Report also sets out internal control deficiencies which had contributed to the matters mentioned in the Qualified Opinion. The Board considered that the following items are the key internal control deficiencies which mentioned by the Special Consultant: (i) the Group recorded transactions in the temporary payment account with insufficient supporting documents; (ii) the Group did not attach sufficient supporting documents for internal review and approval procedures; (iii) the Group did not properly document the review and approval procedures; (iv) the Group paid material amounts to third party individuals/agents instead of intended payees directly, as a result, the Group was not able to provide written evidence to ascertain whether the payment had been paid to the intended payees accordingly; (v) the Group did not set a joint signature requirement for cheques with significant value; and (vi) the Group did not hold any board meeting before entering into some significant transactions.

The Special Committee together with the Special Consultant made recommendations to improve the internal control systems in respect of the matters referred to above which included:

- updating the relevant internal policies in relation to approving material transactions, entering into substantial contracts and making cash advances for business related matters in order to apply more stringent controls in these aspects;

- establishing joint signatory requirements for cheques with significant value; and

- regular checks by the internal control department of the Company on compliance with various internal control issues to prevent the abovementioned problems from recurring.

Other recommendations to improve the internal control system in respect of matters referred to above are also made by the Special Consultant in the Report. The Special Committee has duly reported its findings to the Board and has recommended to the Board the full adoption of the measures recommended by the Special Committee and the Special Consultant. The Board considered that most of the recommendations have been adopted and implemented by the Group. The remaining recommendations will be fully implemented by the Group by 31 December 2010.

The Special Consultant has reported its findings on the matters mentioned in the Qualified Opinion. Now, it will progress its engagement in respect of its review of the general internal controls system of the Group during this financial year and such review is expected to be completed by the end of the current financial year.

PROSPECTS

Through the efforts of the first six months this year, the Group's business has grown steadily after restructuring. It is expected that the Group's overall turnover will be further stimulated during the prime retailing and gifts selling seasons, such as Christmas and New Year holidays, which will further boost our full-year performance.

In October 2010, the Group entered into a letter of intent with a joint venture company of Gruppo Cartorama Srl, a famous European brand agency, to appoint the Group as its sole agent to introduce its brands to the Mainland market under the trademark "IMAGO", and to distribute branded goods include all kinds of leisure bags, gift and fashion daily use. Upon the completion of a formal distribution contract, the Group will introduce a wide range of diversified and smart European fashion brands and quality products to all provinces of the PRC through self-run franchised stores and its distributors, targeted to become the fashion shopping centres for youngsters. The products so distributed are expected to entice customers by virtue of limited production and limited time offer, so as to enhance rarity of the goods, to create new retail concepts and fashion sense for the young customers. Looking forward, the Group aims to further acquire distribution licences for international renowned brands to accelerate the development of the brand agency business.

Apart from this, 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, to sell our distributor's brands, such as "NBA", "Barbie", "Disney", etc. in the department stores owned by this company which will strengthen sales network of the Group.

The Group is also negotiating with an internationally renowned computer manufacturer for exclusively producing a series of fine accessories, such as K-gold cell phone case, crystal mouse and patterned USB, for its computer products to enhance its product value. The Group can also take this opportunity to explore electronic and computer-related accessories market to achieve win-win results.

The Group continues to 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 still plenty of room to develop gifts and premium items. The Group will continue to explore greater market opportunities by proactively cooperating with large corporations to design and produce gifts and premium items for the existing and target customers.

Against "individual traveler" market and for the purpose of improving brand recognition in Greater China, following the launch of huge outdoor billboards across Hong Kong, the Group has appointed Zhaowei (趙薇), who has won the best actress award of Golden Rooster Hundred Flowers Film Festival, as Artini's new spokesperson. Zhaowei's strong personal image and popularity in the film market will help further boost the brand's existing image in China, Hong Kong and Taiwan.

Looking forward, riding on 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", targeting 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.

CORPORATE GOVERNANCE

Corporate Governance Practice

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company has complied with all the provisions in the CG Code for the Period, except that under provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer ("CEO") should be separated and should not be performed by the same individual. The role of the chairman is performed by Mr. Tse Chiu Kwan. Mr. Tse is one of the founders of the Group and possesses rich knowledge and experience of the jewellery industry and the related industries, the Board believes that vesting the role of the chairman in Mr. Tse provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the shareholders of the Company.

The Company has not appointed a CEO for the Period. The overall management of the Company was performed by Mr. Tse Chiu Kwan, Mr. Lin Shao Hua and Mr. Lau Yau Chuen, Louis, all of whom are the executive Directors who have extensive experience in either the jewellery industry or the accounting field. Their respective areas of profession spearheads the Group's overall development and business strategies.

Following the retirement of Ms. Chan Man Tuen, Irene ("Ms. Chan") on 31 August 2010, the Company only has two independent non-executive Directors and two Audit Committee members, the number of which falls below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. The Board is still in the course of identifying a suitable candidate to fill the vacancy of Ms. Chan to fulfill the aforesaid requirements under the Listing Rules as soon as practicable.

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

Model Code for Directors' Securities Transactions

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

Audit Committee

The Audit Committee was established on 23 April 2008 with written terms of reference in compliance with the CG Code. After the retirement of Ms. Chan (a former member of the Audit Committee who retired on 31 August 2010), the Audit Committee comprises two members, both are the independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman) and Mr. Fan William Chung Yue, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties and none of them is a former partner of the external auditors of the Company. The Audit Committee has held meetings with the Company's former auditor, KPMG, to discuss the auditing, internal controls and financial reporting matters of the Company. The Audit Committee has reviewed the unaudited interim financial information and interim report for the Period.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. After the retirement of Ms. Chan (a former member of the Remuneration Committee who retired on 31 August 2010), the Remuneration Committee comprises three members, namely Mr. Fan William Chung Yue (Chairman) and Mr. Lau Fai Lawrence, the independent non-executive Directors and Mr. Tse Chiu Kwan, an executive Director. The primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration of the Directors and senior management of the Company and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management of the Company.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 23 April 2008 with written terms of reference in compliance with the CG Code. After the retirement of Ms. Chan (a former member of the Nomination Committee who retired on 31 August 2010), the Nomination Committee comprises three members, namely Mr. Lau Fai Lawrence (Chairman) and Mr. Fan William Chung Yue, the independent non-executive Directors and Mr. Tse Chiu Kwan, an executive Director. The primary function of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management of the Company.

Investment Committee

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

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period, except for the redemption of the first lot and the remaining second lot of the non-listed convertible bonds issued on 22 January 2010 and 13 April 2010 with an aggregate principal amount of HK$20,000,000 and HK$4,000,000 respectively on 2 June 2010, as a result, HK$16,000,000 of second lot of convertible bonds were converted into 19,441,323 shares, and on 29 June 2010, 83,543,000 new shares were allotted and issued by the Company pursuant to a placing agreement entered into on 18 June 2010.

Events after the Reporting Period

Other than the fire at the Group's production plant on 22 November 2010 as disclosed in note 17 to condensed consolidated financial statements, no other significant events have occurred after the reporting period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 September 2010 is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the website of the Company at www.artini-china.com.

The 2010 interim report of the Company will be dispatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 29 November 2010

As at the date of this announcement, the executive Directors are Mr. Tse Chiu Kwan, Mr. Lin Shao Hua and Mr. Lau Yau Chuen, Louis; the non-executive Director is Ms. Yip Ying Kam and the independent non-executive Directors are Mr. Lau Fai Lawrence and Mr. Fan William Chung Yue.