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 2011

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 2011. 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 2011*
*(Expressed in Hong Kong dollars)*

| | | Unaudited For the six months ended 30 September | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Turnover** | 4 | **171,466** | 200,281 |
| Cost of sales | | **(112,344)** | (100,022) |
| **Gross profit** | | **59,122** | 100,259 |
| Other revenue | 5 | **1,581** | 978 |
| Other net gains | 6 | **2,408** | 8,833 |
| Selling and distribution costs | | **(79,129)** | (94,148) |
| Administrative expenses | | **(23,812)** | (30,828) |
| Other operating expenses | | **(11,714)** | (7,455) |
| **Loss from operations** | | **(51,544)** | (22,361) |
| Finance costs | 7(a) | **(597)** | (1,815) |

| | Note | Unaudited For the six months ended 30 September **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Loss before taxation** | 7 | **(52,141)** | (24,176) |
| Income tax | 8 | **(159)** | (2,119) |
| **Loss for the period** | | **(52,300)** | (26,295) |
| **Attributable to:** | | | |
| Owners of the Company | | **(52,033)** | (26,295) |
| Non-controlling interests | | **(267)** | — |
| **Loss for the period** | | **(52,300)** | (26,295) |
| **Loss per share** *(HK$)* | 10 | | |
| Basic and diluted | | **(0.042)** | (0.022) |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 September 2011*
*(Expressed in Hong Kong dollars)*

| | Unaudited For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Loss for the period** | **(52,300)** | (26,295) |
| **Other comprehensive income:** | | |
| Exchange differences on consolidation | **5,695** | 1,244 |
| **Total comprehensive income for the period, net of tax** | **(46,605)** | (25,051) |
| **Attributable to:** | | |
| Owners of the Company | **(46,338)** | (25,051) |
| Non-controlling interests | **(267)** | — |
| **Loss for the period** | **(46,605)** | (25,051) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2011*
*(Expressed in Hong Kong dollars)*

| | Note | As at 30 September 2011 (unaudited) HK$'000 | As at 31 March 2011 (audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| — Property, plant and equipment | | **76,481** | 82,393 |
| — Investment properties | | **8,479** | — |
| — Interests in leasehold land held for own use under operating leases | | **8,893** | 9,541 |
| Intangible assets | | **12,295** | 14,794 |
| Goodwill | | **5,623** | 7,123 |
| Rental deposits | | **6,781** | 7,972 |
| Deferred tax assets | | **11,526** | 11,526 |
| | | **130,078** | 133,349 |
| **Current assets** | | | |
| Trading securities | | **13,018** | 24,400 |
| Inventories | | **88,828** | 82,928 |
| Trade and other receivables | 11 | **99,483** | 110,163 |
| Current tax recoverable | | **4** | 947 |
| Cash and cash equivalents | | **117,965** | 131,117 |
| | | **319,298** | 349,555 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **69,050** | 55,568 |
| Bank loans | | **23,302** | 23,680 |
| Obligations under finance leases | | **1,263** | 1,340 |
| Current tax payable | | **2,236** | 2,273 |
| | | **95,851** | 82,861 |
| **Net current assets** | | **223,447** | 266,694 |
| **Total assets less current liabilities** | | **353,525** | 400,043 |

| | Note | As at 30 September 2011 (unaudited) HK$'000 | As at 31 March 2011 (audited) HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Obligations under finance leases | | **558** | 1,148 |
| Deferred tax liabilities | | **3,925** | 4,882 |
| **NET ASSETS** | | **349,042** | 394,013 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 13 | **123,732** | 123,732 |
| Reserves | | **224,136** | 268,840 |
| **Total capital and reserves attributable to owners of the Company** | | **347,868** | 392,572 |
| **Non-controlling interests** | | **1,174** | 1,441 |
| **TOTAL EQUITY** | | **349,042** | 394,013 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENT

## 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 2010/2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011/2012 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 2010/11 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 2010/11 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 2011 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 2011 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 2011 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 March 2011, 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 2011:

| | |
|---|---|
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[1] |
| HKAS 24 (Revised) | Related Party Disclosures[2] |
| Amendments to HK(IFRIC) – Int 14 | Prepayments of a Minimum Funding Requirement[2] |
| Improvements to HKFRSs 2010 | Improvements to HKFRSs 2010[3] |

1 Effective for the annual periods beginning on or after 1 July 2010
2 Effective for the annual periods beginning on or after 1 January 2011
3 Effective for the annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

The Group has assessed the impact for the adoption of these amendments to standards and interpretations and considered that the adoption of them is unlikely to have significant impact on the Group's results of operations and financial position.

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 2011. 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.

The method of calculations adopted in preparing the unaudited interim financial report for the six months ended 30 September 2011 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

## 4 SEGMENT REPORTING

The segment results for the six months ended 30 September 2011 and 2010 is presented below:

| | **Six months ended 30 September 2011 — unaudited** | | | | | |
|---|---|---|---|---|---|---|
| | **Retailing and distribution** | | | | | |
| | **Mainland China** | **Hong Kong and Macao** | **Sub-total** | **CDM sales** | **Inter-segment elimination** | **Consolidated** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Revenue from external customers | **29,490** | **12,731** | **42,221** | **129,245** | **—** | **171,466** |
| Inter-segment revenue | **—** | **—** | **—** | **15,719** | **(15,719)** | **—** |
| Reportable segment revenue | **29,490** | **12,731** | **42,221** | **144,964** | **(15,719)** | **171,466** |
| Reportable segment profit/(loss) | **(27,964)** | **(5,373)** | **(33,337)** | **13,831** | **—** | **(19,507)** |
| Unallocated expenses | | | | | | **(32,793)** |
| Loss for the period | | | | | | **(52,300)** |

| | Six months ended 30 September 2010 — unaudited | | | | | |
|---|---|---|---|---|---|---|
| | Retailing and distribution | | | | | |
| | Mainland China | Hong Kong and Macao | Sub-total | CDM sales | 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) |

## 5 OTHER REVENUE

| | Unaudited For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Dividend income from listing securities | **47** | 340 |
| Services income | **1,189** | 196 |
| Rental income | **—** | 75 |
| Interest income | **309** | 163 |
| Others | **36** | 204 |
| | **1,581** | 978 |

## 6 OTHER NET GAINS

| | Unaudited For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Net exchange losses | **(692)** | (200) |
| Net loss on disposal of property, plant and equipment | **(9)** | (102) |
| Net realised and unrealised (loss)/gains on trading securities | **(9,860)** | 6,835 |
| Net gain on change in fair value of embedded financial derivatives | **—** | 757 |
| Gain on disposal of investment property | **—** | 1,543 |
| Compensation for losses on a fire accident | **9,369** | — |
| Reversal of allowance for impairment loss on loan receivable | **3,600** | — |
| | **2,408** | 8,833 |

## 7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging and (crediting):

| | Unaudited For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| (a) Finance costs: | | |
| Interest on bank loans wholly repayable within five years | **504** | — |
| Imputed interest on convertible bonds | **—** | 1,710 |
| Finance charges on obligations under finance leases | **93** | 105 |
| | **597** | 1,815 |
| (b) Other items: | | |
| Depreciation | | |
| — assets held for use under finance lease | **600** | 545 |
| — other assets | **13,006** | 9,240 |
| Amortisation — Intangible assets | **2,612** | — |
| Allowance for impairment losses on deposit paid for acquisition of business | **10,132** | — |
| Impairment loss on goodwill | **1,500** | — |
| Advertising and promotion expenses | **4,209** | 6,909 |
| Operating lease charges in respect of properties: | | |
| — minimum lease payments | **23,387** | 25,879 |
| — contingent rent | **5,620** | 7,264 |

## 8 INCOME TAX

| | Unaudited For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Current tax — PRC Enterprise income tax** | | |
| Provision for the period | **1,117** | 2,119 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(958)** | — |
| Income tax expense | **159** | 2,119 |

*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 profits 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 2011 (six months ended 30 September 2010: 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** | |
|---|---|---|
| | **2011** | 2010 |
| Loss attributable to owners of the Company *(HK$'000)* | **52,033** | 26,295 |
| Weighted average number of ordinary shares | | |
| At 1 April | **1,237,320,323** | 1,116,538,000 |
| Effect of shares issued during the period | **—** | 100,025,869 |
| At 30 September | **1,237,320,323** | 1,216,563,869 |
| Basic loss per share *(HK$)* | **0.042** | 0.022 |

### (b) Diluted loss per share

Diluted loss per share amounts for the current and prior periods are the same basis loss per share amounts as the potential ordinary shares outstanding during both periods had an anti-dilutive effect on the basic loss per share amounts for the current and prior period.

## 11 TRADE AND OTHER RECEIVABLES

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

| | At 30 September 2011 (unaudited) *HK$'000* | At 31 March 2011 (audited) *HK$'000* |
|---|---|---|
| Current | **26,936** | 24,429 |
| Less than 3 months past due | **8,352** | 10,172 |
| 3 to 6 months past due | **1,979** | 1,687 |
| Over 6 months past due | **6,179** | 3,486 |
| Total debtors, net of impairment losses | **43,446** | 39,774 |
| Deposits, prepayments and other receivables | **56,037** | 70,389 |
| | **99,483** | 110,163 |

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 for doubtful debt 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 with the following ageing analysis:

| | 30 September 2011 (unaudited) *HK$'000* | 31 March 2011 (audited) *HK$'000* |
|---|---|---|
| Due within 3 months or on demand | **20,369** | 8,473 |
| Due after 3 months but within 6 months | **1,615** | 93 |
| Due after 6 months | **255** | 7 |
| Trade creditors | **22,239** | 8,573 |
| Receipts in advance | **16,525** | 13,948 |
| VAT and other tax payables | **1,599** | 356 |
| Provision for onerous contracts | **3,048** | 3,048 |
| Accrued charges and other payables | **25,639** | 29,643 |
| | **69,050** | 55,568 |

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.

## 13 SHARE CAPITAL

| | Unaudited At 30 September 2011 Number of shares *'000* | Unaudited At 30 September 2011 Amount *HK$'000* | Audited At 31 March 2011 Number of shares *'000* | Audited At 31 March 2011 Amount *HK$'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 | **1,237,230** | **123,732** | 1,116,538 | 111,654 |
| Shares issued under share placement | — | — | 83,543 | 8,354 |
| Shares issued under share option schemes | — | — | 44,850 | 4,485 |
| Shares issued upon conversion of convertible bond | — | — | 19,441 | 1,944 |
| Share repurchased | — | — | (27,052) | (2,705) |
| At the end of the period | **1,237,230** | **123,732** | 1,237,320 | 123,732 |

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.

## 14 CAPITAL COMMITMENTS

| | **30 September 2011 (unaudited)** *HK$'000* | 31 March 2011 (audited) *HK$'000* |
|---|---|---|
| Contracted for | **3,348** | 3,249 |

## 15 RELATED PARTY TRANSACTIONS

On 28 March 2011, the Group entered into agreements on acquisition of three properties from Mr. Tse, the Chairman, an executive director and a controlling shareholder of the Company. The transactions had been completed on 29 September 2011 at an aggregate consideration of approximately HK$8,479,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Review

China's macroeconomic environment maintained its growth momentum on the whole during the first half of 2011. According to the economic data published by the National Bureau of Statistics of China, the total retail sales of social consumer goods in the PRC was RMB13,081.1 billion[1] in the first nine months, which still recorded a growth of 17% despite the declining economic growth, indicating that the retail industry and consumer's confidence in China remain positive, and that the strong demand for trendy accessories fosters the development of the Group.

To capture the ongoing growth trend in the Mainland retail market, during the period under review, the Group continued to undergo business restructuring and changed the operation policies, strategically adjusting the coverage of retail outlets and strengthening the distributorship business model. In addition, through exploring TV direct selling and online sales platforms, we could effectively control the costs and accelerate the growth rate of different sales channels to maximize the shareholders' returns.

## Business Review

For the six months ended 30 September 2011 (the "Period"), the Group recorded a total turnover of approximately HK$171,466,000 (2010: HK$200,281,000), representing a decrease of 14.4% as compared with the same period last year. The decrease was mainly due to previous strategic consolidation of the overall business development, inefficient retail points were closed. The gross profit was HK$59,122,000 (2010: HK$100,259,000), representing a decrease of 41.0% as compared with the same period last year. The gross profit margin decreased to 34.5% from 50.1% of last year, which was attributable to decline in profitability of the Group's CDM business and further loss incurred by the Group's retail operation. The loss attributable to the owners of the Company during the Period was HK$52,033,000 (2010: loss of HK$26,295,000), and the increase in loss was mainly caused by further loss incurred by the Group's retail operations during the Period. The loss per share was HK$0.042 (2010: HK$0.022).

### *Retail Business*

The Group consistently adopted the "multi-brand strategy" to operate its retail business, which includes brands such as "Artini", "Q'ggle", "Q'ggle Lingerie", "NBA", "Barbie" and "Disney" etc. During the Period, China Post has continued to be the Group's exclusive agency to develop various postal related products based on the Group's accessory products and sell these products through more than 60,000 post offices of China Post throughout the country and by direct mail orders. Meanwhile, the Group developed online sales platforms to sell our products and held marketing activities, targeting customers of China Post to promote the Group's products.

[1] "The total retail sales of social consumer goods (September 2011)", the National Bureau of Statistics of China, http://www.stats.gov.cn/tjsj/jdsj/t20111020_402761210.htm

During the Period, the Group continued its stringent cost control by undergoing internal resources integration, streamlining the labor structure and cutting down expenses. Meanwhile, the Group has adjusted its operating policies and gradually converted into a distributorship business model. Such modifications allowed the Group to establish its sales networks in a cost-effective manner while reducing the operation expenses. Besides, the Group strategically closed down some retail points of high rentals to further lower the production and operation costs. As at 30 September 2011, the Group had approximately 100 retail outlets (2010: 151 retail outlets) throughout the PRC, Hong Kong and Macau, covering more than 30 Chinese cities. Retail business recorded a turnover of HK$42,221,000 (2010: HK$73,811,000), accounting for approximately 24.6% of the Group's total turnover, which represented a decrease of 12.2% as compared with the same period of last year.

*(1) Develop new distribution channels*

During the Period, the Group adjusted its business strategies, strengthened the distributorship business model and established its retail outlets in a fast and cost-effective way. The Group's market has penetrated to a majority of cities apart from the first-tier cities in the PRC. The Group granted the patent rights of its brands of "Artini" and/or "Q' ggle" to selected qualified and experienced agents to run the shops under the agency business model and thereby promoted the growth of its branded stores. Currently, the Group has approximately 100 retail outlets, including approximately 22 agency stores.

In addition, the Group continuously developed online sales platforms that involve lower operating costs and continued to cooperate with Hunan Satellite TV to expand customer base through the TV direct selling platform. Riding on the high brand awareness, the Group is able to achieve better sales.

*(2) Customer Relationship Management plan*

Through consistently adopting the Customer Relationship Management ("CRM") plan, the Group is able to enhance the loyalty of its customers. As at 30 September 2011, the number of VIP customers of "Artini" was 108,362, representing an increase of 14.5% over the same period of last year; while the number of VIP customers of "Q' ggle" increased by 27.2% to 50,487. Loyal customers contributed the majority of the Group's revenue, which helps to stablise incomes. By analyzing the shopping habits of our VIP customers, the Group has strategically planned and promoted our retail business and other promotion activities and has developed a series of new products catering our customers' preferences.

***Concurrent Design Manufacturing ("CDM") Business***

During the Period, the Group continued to cooperate closely with internationally renowned brands, simultaneously designed and manufactured different products, then exported and distributed these products worldwide. The internationally renowned brands include Marks & Spencer, Disney, Playboy, Tommy Hilfiger, Givenchy, Nine West, Nautica, Guess, Amway, Carolee, Tchibo, etc.

Regarding the PRC market, the Group has been actively expanding its business in the gift and premium market through providing one-stop gift and premium services to domestic large enterprises. During the Period, the Group provided gifts and premium services for China Mobile, Leconte, Amway, China Minsheng Bank, and China Merchants Bank, etc. Furthermore, after the Beijing Olympic Games and the Guangzhou Asian Games, the Group has been appointed as the supplier of gifts and premium for the large-scaled sports event again, designing and manufacturing accessories and gifts for the Shenzhen Universiade 2011 held in August.

During the Period, the Group's CDM business recorded HK$129,245,000 (2010: HK$126,470,000), accounting for 75.4% of the total turnover, which increased by 2.19% compared with the same period of last year. The slight rise was driven by the steady growth in export business and the surge of souvenir businesses.

**Financial Review**

For the Period, the Group recorded a total turnover of approximately HK$171,466,000, representing a decrease of 14.4% as compared with the same period in 2010. The decrease was mainly due to previous strategic consolidation of the overall business development. During the Period under review, the turnover of the retail and CDM businesses were approximately HK$42,221,000 and HK$129,245,000 respectively, accounted for 24.6% and 75.4% of the total turnover of the Group. The Group's turnover was mainly derived from the PRC, European and American markets, which accounted for 34.7%, 31.1% and 13.8% of the total turnover respectively, while the percentage of the same period last year were 32.8%, 37.4% and 15.1% respectively.

During the Period under review, gross profit decreased by 41.0% to HK$59,122,000. Gross profit margin dropped to 34.5% (2010: 50.1%). The cost of sales for the Period increased by 12.3% from approximately HK$100,022,000 for the six months ended 30 September 2010 to HK$112,344,000. Due to the continuous increase in raw materials and labor costs, the overall gross profit margin was reduced.

Selling and distribution costs for the Period decreased by 16.0% to HK$79,129,000, while it was HK$94,148,000 for the corresponding period in 2010. 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.

Income tax expense decreased from HK$2,119,000 for the six months ended 30 September 2010 to HK$159,000 for the Period.

***Liquidity and Financial Resources***

As at 30 September 2011, the bank loan of the Group amounted to HK$23,302,000, which was denominated in Renminbi, and was secured by pledging of a property with carrying value of HK$22,976,000 and repayable by 14 December 2013. As it was a loan with a clause in its term that gave the bank an overriding right to demand repayment without notice or with notice period of less than 12 months at its sole discretion, it was classified as current liabilities even though the directors did not expect that the bank would exercise their rights to demand repayment.

Apart from this bank loan, the Group has also obtained general banking facilities which were secured by legal charge over certain of its properties with an aggregate carrying value of HK$nil (31 March 2011: HK$8,024,000) and cross corporate guarantee given by the Group. At the end of the reporting period, banking facilities available to the Group amounted to HK$2,098,000 (31 March 2011: HK$11,598,000), which were utilised by the Group to the extent of HK$1,250,000 (31 March 2011: HK$1,250,000).

As at 30 September 2011, the Group's obligations under finance leases amounted to HK$1,821,000.

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 22.3% as at 30 September 2011 (31 March 2011: 18.4%). The Group had time deposits and cash balances as at 30 September 2011 amounted to HK$117,965,000 (31 March 2011: HK$131,117,000).

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 minimize credit risk in its business.

***Dividend***

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

***Foreign Exchange Exposure***

The businesses 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$692,000.

***Significant Investments and Acquisitions***

During the Period under review, the Group acquired three properties located in Guangzhou, the PRC from Mr. Tse, the Chairman, an executive director and a controlling shareholder of the Company at an aggregate consideration of approximately HK$8,479,000. The acquisition was made for rental incomes in view of the rising property price in the PRC. The Group continued to seek opportunities to acquire and cooperate with international customers in order to generate better returns to its shareholders.

An allowance of impairment losses on deposit paid for acquisition of business of an amount of approximately HK$10,132,000 was made, which is the balance of final payment for a Beijing project yet to be received. The Group is making its best effort to recover the amount.

***Capital Commitments***

As at 30 September 2011, the capital commitments contracted for were HK$3,348,000 (31 March 2011: HK$3,249,000).

***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 Litigations***

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.

***Compensation for Loss on a Fire Accident***

During the Period under review, an amount of HK$9,369,000 was received as compensation for losses on a fire accident at the Group's production plant on 22 November 2010.

*Human Resources*

As at 30 September 2011, the Group had 1,600 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK$33,979,000. 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.

**Prospects**

The first half of the year was the turning point for the long-term development of the Group's overall business. The Group adjusted its business development strategies and is optimistic that those strategies will establish a solid development foundation for the Group upon completion of the consolidation.

The Group will continue to focus on the PRC market and explore diversified distribution channels, such as further expanding our TV direct selling platform and online sales to strengthen the sales network, enlarging its business coverage and scale in the PRC market and increasing interaction with our customers as well as organizing promotion activities.

Apart from this, the Group is developing new products series and is expected to launch wedding accessories in the forthcoming year, which not only allow the Group to provide diversified options for customers through developing new products, but also enables us to tap the wedding accessories market.

The Group will strengthen its CDM business and identify more new customers throughout the world, particularly customers from the developing countries such as China and Russia. In addition, there are plenty of business opportunities for gifts and premium items in the global gift market. The Group will continue to explore greater market opportunities by proactively cooperating with large corporations to offer the "tailor-made" souvenirs to their existing and target customers.

Looking forward, riding on our high quality design and products, the Group will continue to seek 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 and potential. The Group is well positioned to face challenges and grasp business opportunities in the future.

## 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 Company has appointed Mr. Tse Chiu Kwan ("Mr. Tse") as CEO with effect from 28 November 2011. The roles of the chairman and CEO are performed by Mr. Tse. 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 roles of the chairman and CEO 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. During the Period, the overall management of the Company was performed by Mr. Tse, Mr. Lin Shao Hua (resigned on 31 October 2011) and Mr. Lau Yau Chuen, Louis (up and until his resignation effective from 18 July 2011), all of whom were executive Directors who have extensive experience in either the jewellery industry or the accounting field. Their respective areas of profession spearhead the Group's overall development and business strategies. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

Mr. Fan Chung Yue, William ("Mr. Fan") has tendered his resignation on 9 November 2011 as independent non-executive director of the Company. By serving three months' notice to the Company, the resignation of Mr. Fan will become effective from 9 February 2012. Mr. Fan also will cease to be the members of audit committee and nomination committee, and the chairman of remuneration committee of the Company with effect from 9 February 2012. The Company will appoint a suitable individual as an independent non-executive director to fill the casual vacancy which will arise on 9 February 2012.

### 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. The Audit Committee comprises three members, all are the independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Mr. Fan and Mr. Lau Yiu Kit, 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 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. The Remuneration Committee comprises four members, namely Mr. Fan (Chairman), Mr. Lau Fai Lawrence and Mr. Lau Yiu Kit, the independent non-executive Directors and Mr. Tse, 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. The Nomination Committee comprises four members, namely Mr. Lau Fai Lawrence (Chairman), Mr. Fan and Mr. Lau Yiu Kit, the independent non-executive Directors and Mr. Tse, 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. 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.

## 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.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 September 2011 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 2011 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, 28 November 2011

*As at the date of this announcement, the executive Director is Mr. Tse Chiu Kwan; the non-executive Director is Ms. Yip Ying Kam and the independent non-executive Directors are Mr. Lau Fai Lawrence, Mr. Fan William Chung Yue and Mr. Lau Yiu Kit.*