

ARTINI
雅天妮



Sparks
OF LIFE
INTERIM REPORT 中期報告

2015/16



ARTINI CHINA CO. LTD. 雅天妮中國有限公司
(Incorporated in Bermuda with limited liability) | (於百慕達註冊成立的有限公司)

Stock Code 股份代號: 789

ARTINI



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tse Hoi Chau (*Chairman & Chief Executive*)
Mr. Lin Shao Hua

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Lau Yiu Kit
Mr. Zeng Zhaohui

AUDIT COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)
Mr. Lau Yiu Kit
Mr. Zeng Zhaohui

REMUNERATION COMMITTEE

Mr. Zeng Zhaohui (*Chairman*)
Mr. Tse Hoi Chau
Mr. Lau Fai Lawrence
Mr. Lau Yiu Kit

NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)
Mr. Tse Hoi Chau
Mr. Lau Yiu Kit
Mr. Zeng Zhaohui

COMPANY SECRETARY

Mr. Leung Ka Shing

AUTHORISED REPRESENTATIVES

Mr. Tse Hoi Chau
Mr. Leung Ka Shing

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suite No. 10, 8/F.
Tower 3, China Hong Kong City
China Ferry Terminal
33 Canton Road, Kowloon
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISERS

As to Hong Kong law

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

Chiu & Partners
40/F., Jardine House
1 Connaught Place
Central, Hong Kong

As to Bermuda law

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

AUDITOR

ZHONGLEI (HK) CPA Company Limited
Suites 313–316, 3/F.
Shui On Centre
6–8 Harbour Road
Wanchai, Hong Kong

SHARE REGISTRARS

Principal share registrar and transfer office
MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar and transfer office

Union Registrars Limited
A18/F., Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai, Hong Kong

LISTING EXCHANGE INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")

Stock Code

789

Company's Website

www.artini-china.com

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 September 2015 (the “Period”), the Group recorded a total turnover of approximately HK\$10,538,000 (for the six months ended 30 September 2014: approximately HK\$69,100,000), representing a decrease of approximately 84.7% as compared with the same period last year. Gross profit was approximately HK\$738,000 (for the six months ended 30 September 2014: approximately HK\$7,476,000), representing a decrease of approximately 90.1% as compared with the same period last year. During the Period, loss attributable to the owners of the Company further widened to approximately HK\$46,021,000 (for the six months ended 30 September 2014: loss of approximately HK\$35,388,000). The increase of loss for the Period is attributable to (i) the decrease in the Group’s revenue of approximately 84.7% for the six-month period ended 30 September 2015 as compared to that of the corresponding period in 2014; and (ii) the increase in selling expenses as a result of promotion for the retailing business. Loss per share was HK\$0.019 (for the six months ended 30 September 2014: loss of HK\$0.057 (Restated)).

RETAIL BUSINESS

During the Period, the Group’s retailing business was affected by the weakened consumer sentiment caused by economic uncertainties in Mainland China and strategic closures of the Group’s retail shops in order to reduce its rental burdens. As at 30 September 2015, the Group had two retailing points (As at 30 September 2014, 11 retailing points) throughout the PRC. During the Period, the retail business recorded a turnover of approximately HK\$580,000 (for the six months ended 30 September 2014: approximately HK\$5,406,000), accounting for approximately 5.5% (2014: 7.8%) of the Group’s total turnover and representing a decrease of approximately 29.5% (2014: 72.9%) as compared with the same period last year.

Based on the past experiences, the unsatisfactory performance in retailing business was mainly resulted from shops with high rental costs in first-class shopping malls in PRC. Further, the management expects the rental of the shops in PRC will decrease due to recent uncertainties of economies in PRC. Hence, it is believed that the Group can enjoy the lower rent when opening new shops later.

Notwithstanding our reduced scale of retailing operation, the management considers the promotion is necessary. It is believed that maintenance of brand awareness depends on the continuous promotion. Once promotion suspends, we may lose the awareness on our brands from customers. In effort to continue to build up our brand, we had to continue our brand promotion during the period.

As at 30 September 2015, the number of VIP customers of “Artini” was approximately 138,000, representing an increase of 2.8% over the same period last year. The Group believed that loyal customers contributed a key portion of the Group’s revenue. By analyzing the shopping habits of our VIP customers and thereby understanding their preferences, the Group has consistently developed new series of products and strategically organised promotional activities to raise brand awareness among its existing and potential customers.

CONCURRENT DESIGN MANUFACTURING (“CDM”) BUSINESS

After completion of disposal on the TCK Group, CDM sales have changed to the sales of the products at the customer’s chosen level of participation in the design process, concurrently works with the customers in designing the products and coordinating the manufacturers according to the customer desired final design. Hence, the customers have significantly changed.

Due to the change in the customer base and the keen competition on export of the fashion accessories during the Period, the turnover decreased from HK\$63,694,000 for six month ended 30 September 2014 to HK\$9,958,000 for six month ended 30 September 2015.

However, although the turnover of export business decreased significantly, the performance of the export business improved. During the period, the losses in CDM business decreased to approximately HK\$713,000 (for the six-month period ended 30 September 2014: approximately HK\$16,319,000). Such improvement is mainly attributable to the avoidance of the fixed costs in the factory as a result of the disposal of the subsidiaries.

Management Discussion and Analysis

FINANCIAL REVIEW

For the Period, the Group recorded a total turnover of approximately HK\$10,538,000, representing a decrease of 84.7% as compared with the same period in 2014. The decrease was mainly due to the restructuring the location of retailing points. During the Period, the turnover of the retailing and distribution and export businesses were approximately HK\$580,000 and approximately HK\$9,958,000 respectively, accounting for approximately 5.5% and approximately 94.5% of the total turnover of the Group. The Group's turnover was mainly derived from the PRC, Hong Kong and Europe, which accounted for 62.0%, 19.1% and 18.9%.

During the Period, gross profit decreased by approximately 90.1% to approximately HK\$738,000. Gross profit margin decreased to approximately 7.0% (for the six months ended 30 September 2014: approximately 10.8%). The cost of sales for the Period decreased by approximately 84.1% from approximately HK\$61,624,000 for the six months ended 30 September 2014 to approximately HK\$9,800,000 for the six months ended 30 September 2015. The decrease in cost of sales is mainly resulted from the decrease in the operation scale along with turnover. Further, due to disposal of the TCK Group, our CDM Sales have changed in terms of customer profile and sales. The transactions in new CDM Sales generally generate lower gross profit margin than those in manufacturing business.

Selling and distribution costs for the Period increased by approximately 270.4% to approximately HK\$30,143,000 as compared to approximately HK\$8,139,000 for the corresponding period in 2014. This increase in selling expenses is mainly resulted from continuous promotion of the retailing business in order to maintain our brand.

The Group did not incur any income tax for the six months ended 30 September 2015 (for the six months ended 30 September 2014: Nil).

Liquidity and Financial Resources

As at 30 September 2015, the Group did not maintain any borrowings (As at 30 September 2014: approximately HK\$19,000,000 which was denominated in Hong Kong Dollars, secured by a pledge over a property with a carrying value of approximately HK\$6,870,000).

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.

Dividend

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

Foreign Exchange Exposure

The main business activities of the Group take place in the PRC and Hong Kong. Accordingly, the Board considers that the potential foreign exchange exposure of the Group is relatively limited. Moreover, the Group has not used any forward contracts or hedging products to hedge its interest rate or exchange rate risks during the Period. The management will, nonetheless, continue to monitor foreign currency risks and to learn more relevant information from financial institutions. During the Period, the Group recorded a net exchange loss of approximately HK\$3,463,000. The exchange losses are mainly resulted from depreciation of Renminbi during the Period.

Significant Investments and Acquisitions

During the Period, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries or associated companies. The Group continues to seek opportunities to acquire and cooperate with international customers in order to generate better returns for its shareholders. In addition, the Board will decide what the best available source of funding is for investments and acquisitions when suitable opportunities arise.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2015 (31 March 2015: Nil).

Human Resources

As at 30 September 2015, the Group had approximately 30 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK\$3,130,000. To enhance the expertise, product knowledge, marketing skills and overall operational management skills of its employees, the Group organised regular training and development courses for its employees, and provided them with a competitive remuneration package, including salary, allowance, insurance, commission and bonus. Meanwhile, in order to create a harmonious and family-like working atmosphere, the Group emphasizes on listening to employees and continually developing paths for staff promotion.

Investor Relations

The Group strongly believes that investor relations are important to a listed company. Maintaining 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 its corporate position. Our investor relationship representatives will more actively participate in various investor-related activities.

PROSPECTS

In 2015, in the face of the slowdown of China's economic growth and the weak consumption demand, the retailing market remained in the wintry stage. Retailing brands have entered into a challenging period during which only the fittest survive. Under such difficult macro-environment, it was a mounting challenge for the management of the Company. In the reporting period, the Group was in search of a suitable development path through constantly integrating our resources, minimizing costs and enhancing efficiency.

In the future, the Group will promote the transformation of the "Internet Plus" model, expand the online marketing channels through e-commerce platforms and promote internet-based shops to facilitate a deep integration of online and offline business. With only two remaining retail points, though, "ARTINI" owns huge loyal customer resources, and therefore the management of the Company still holds confidence in the "ARTINI" brand. To maintain the brand awareness, the Company will continue to engage in media promotion and expects to further decline rentals of shopping malls. Once the rentals become reasonable, the Company will consider to open new shops in suitable positions.

In respect of business, smart wearable devices became a new hotspot of e-consumption in 2015. The smart wearable device market is expected to reach RMB11.27 billion and to enter into a rapid growth period in the next two years. China will become a consumption power of smart wearable devices, and therefore the management of the Company believe that there will be much room for development for female smart wearable products. In the future, the Company plans to promote fashionable and smart female health products with the combination of intellectual technology and traditional jewelry.

In addition, the Group will seek potential projects in the future to realize the scale expansion and resources integration of the Company and promote a rapid transformation and upgrade of the Company which may have a positive impact on its future development.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

Corporate Governance Practice

The Company has adopted the Corporate Governance Code (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 the code provisions in the CG Code for the Period, except for the following deviation:

Code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. From 21 June 2013 onwards, the roles of chairman and chief executive of the Company were performed by Mr. Tse Hoi Chau.

The Board considers that vesting the roles of chairman of the Board and chief executive of the Company in the same individual is beneficial to the business prospects and management of the Company. The Board will review the need of appointing suitable candidate to assume the role of chief executive if and when 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 of the Company (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 being independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Mr. Lau Yiu Kit and Mr. Zeng Zhaohui, 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. Zeng Zhaohui (Chairman), Mr. Lau Fai Lawrence and Mr. Lau Yiu Kit, the independent non-executive Directors and Mr. Tse Hoi Chau, 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.

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. Lau Yiu Kit and Mr. Zeng Zhaohui, the independent non-executive Directors and Mr. Tse Hoi Chau, an executive Director. The primary function of the Nomination Committee is to review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy.

Corporate Governance and Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Period.

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

As at 30 September 2015, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

Long positions in shares of the Company

Name of Directors	Company in which interests are disclosed	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted	Percentage of the issued share capital as at 30 September 2015
Tse Hoi Chau	The Company	Corporate interest	1,085,267,988 (Note 1)	–	42.23%
		Beneficial interest	14,824,000	26,671,400 (Note 2)	1.61%
Lin Shao Hua	The Company	Beneficial interest	–	26,671,400 (Note 2)	1.04%

Notes:

- These shares are held by Walifax Investments Limited, which is wholly and beneficially owned by Mr. Tse Hoi Chau.
- These options were granted by the Company on 28 March 2014 and 9 July 2015 under the share option scheme (the "Share Option Scheme") adopted by the Company on 23 April 2008.

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

Corporate Governance and Other Information

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

The Company adopted the Scheme on 23 April 2008. The purpose of the Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing value of the Company and its shares for the benefits of the Company and the shareholders of the Company as a whole. Details of shares options movements during the Period under the Scheme are as follows:

Name of category	Date of grant share options	Number of share options					Outstanding at 30.09.2015	Validity period of share options	Exercise price (HK\$)
		Outstanding as at 01.04.2015	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period			
Directors									
Tse Hoi Chau	28.03.2014	6,671,400	-	-	-	-	6,671,400	28.03.2014-27.03.2019	0.4709
	09.07.2015	-	20,000,000	-	-	-	20,000,000	09.07.2015-08.07.2020	0.1470
Lin Shao Hua	28.03.2014	6,671,400	-	-	-	-	6,671,400	28.03.2014-27.03.2019	0.4709
	09.07.2015	-	20,000,000	-	-	-	20,000,000	09.07.2015-09.07.2020	0.1470
Employees									
In aggregates	28.03.2014	6,671,400	-	-	-	-	6,671,400	28.03.2014-27.03.2019	0.4709
	09.07.2015	-	1,600,000	-	-	-	1,600,000	09.07.2015-08.07.2020	0.1470
Other participants									
In aggregate	28.03.2014	33,357,000	-	-	-	-	33,357,000	28.03.2014-27.03.2019	0.4709
In aggregate	28.03.2014	6,671,400	-	-	-	-	6,671,400	28.03.2014-27.03.2019	0.4709
In aggregates	09.07.2015	-	20,200,000	-	-	-	20,200,000	09.07.2015-08.07.2020	0.1470

Note 1: The Closing price for the share on 28 March 2014 and 9 July 2015, being the date immediately before the share options granted, were HK\$0.2440 and HK\$0.1360 respectively.

Note 2: For the share options granted on 28 March 2014, the share options may be exercisable immediately after the date of the grant; for the share options granted on 9 July 2015, 50% of share options may be exercisable immediately after the date of the grant while the remaining 50% of the share options may be exercisable immediately after the 8 July 2015.

Note 3: Subsequent to the Period

On 27 November 2015, the Company granted the 256,200,000 share options to certain employees and consultants with exercise price of HK\$0.1488 for the validity period from 27 November 2015 to 26 November 2020. A maximum of 50% of the total number of share options granted to the guarantees may be exercisable immediately after the date of grant while the remaining 50% of the total number of share options granted may be exercisable immediately after 26 November 2016. The closing price for the shares on 27 November 2015, being the date of immediately before the share options granted, was HK\$0.1470.

Corporate Governance and Other Information

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

As at 30 September 2015, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Long positions in shares of the Company

Name of shareholders	Capacity	Nature of issued ordinary shares/ underlying shares held	Percentage of the issued share capital as at 30 September 2015
Walifax Investments Limited (<i>Note 1</i>)	Beneficial interest	1,085,267,988	42.23

Note 1: Walifax Investments Limited is wholly and beneficially owned by Mr. Tse Hoi Chau.

Save as disclosed above, as at 30 September 2015, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

By order of the Board

Artini China Co. Ltd.

Tse Hoi Chau

Executive Director

Hong Kong, 25 November 2015

Condensed Consolidated Income Statement

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

For the six months ended
30 September
(unaudited)

	Notes	2015 HK\$'000	2014 HK\$'000
Turnover	4	10,538	69,100
Cost of sales		(9,800)	(61,624)
Gross profit		738	7,476
Other revenue	5	27	223
Other net (losses) gains	6	(6,270)	310
Selling and distribution costs		(30,143)	(8,139)
Administrative expenses		(10,373)	(34,200)
Other operating expenses		–	(10)
Loss from operations		(46,021)	(34,340)
Finance costs	7	–	(1,048)
Loss before taxation	7	(46,021)	(35,388)
Income tax	8	–	–
Loss for the period		(46,021)	(35,388)
			(Restated)
Loss per share (HK\$)			
Basic and diluted	10	0.019	0.057

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
Loss for the period	(46,021)	(35,388)
Other comprehensive income:		
Exchange differences on consolidation	1,178	(595)
Disposals of disposed companies	–	179
Total comprehensive loss for the period, net of tax	(44,843)	(35,804)

Condensed Consolidated Statement of Financial Position

As at 30 September 2015 | (Expressed in Hong Kong dollars)

	<i>Notes</i>	As at 30 September 2015 (unaudited) HK\$'000	As at 31 March 2015 (audited) HK\$'000
Non-current assets			
Property, plant and equipment		1,242	1,607
Investment properties		–	8,901
Deferred tax assets		63	63
		1,305	10,571
Current assets			
Inventories		3,502	3,515
Trade and other receivables	11	40,016	19,154
Cash and cash equivalents		68,037	122,822
		111,555	145,491
Current liabilities			
Trade and other payables	12	16,836	25,794
Current tax payable		159	159
		16,995	25,953
Net current assets		94,560	119,538
Total assets less current liabilities		95,865	130,109
NET ASSETS		95,865	130,109
CAPITAL AND RESERVES			
Share capital	13	25,698	24,746
Reserves		70,167	105,363
TOTAL EQUITY		95,865	130,109

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000	Share- based capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2014	123,732	549,974	(19,518)	38,730	21,755	14,718	(669,988)	59,403
Changes in equity for the six months ended 30 September 2014:								
Total comprehensive loss for the period								
Loss for the Period	-	-	-	-	-	-	(35,388)	(35,388)
Other comprehensive loss	-	-	-	(595)	-	-	-	(595)
Total transaction with the owner								
Disposal of Companies	-	-	(5,238)	179	-	-	5,059	-
Balance at 30 September 2014	123,732	549,974	(24,756)	38,314	21,755	14,718	(700,317)	23,420
Balance at 1 April 2015	24,746	714,462	(19,518)	17,379	8,641	13,572	(629,173)	130,109
Changes in equity for the six months ended 30 September 2015:								
Total comprehensive loss for the period								
Loss for the Period	-	-	-	-	-	603	(46,021)	(45,418)
Other comprehensive loss	-	-	-	1,178	-	-	-	1,178
Total transaction with the owner								
Issue of new shares	952	9,044	-	-	-	-	-	9,996
Transaction cost attribute to issue of new shares	-	(440)	-	-	-	-	440	-
Balance at 30 September 2015	25,698	723,066	(19,518)	18,557	8,641	14,175	(674,754)	95,865

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
Net cash used in operations	(68,687)	(7,806)
Tax paid	–	(39)
Net cash used in operating activities	(68,687)	(7,845)
Net cash used in investing activities	5,713	(980)
Net cash generated from (used in) financing activities	9,996	5,650
Net decrease in cash and cash equivalents	(52,978)	(3,175)
Cash and cash equivalents at 1 April	122,822	11,717
Effect of foreign exchange rate changes	(1,807)	(49)
Cash and cash equivalents at 30 September	68,037	8,493
Analysis of Pledged bank deposits and cash and cash equivalents:		
Cash and cash equivalents	68,037	7,693
Pledged bank deposits	–	800
	68,037	8,493

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND

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

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 September 2015 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2015, as described in those annual financial statements.

The following new and amended standards are mandatory for the first time for the financial year beginning on 1 April 2015.

Standards/Interpretations	Subject of amendment
Amendment to HKAS19	Defined benefit plans
Annual improvements 2012	Annual improvements 2010-2012 cycle
Annual improvements 2013	Annual improvements 2011-2013 cycle

The adoption of the above new and amended standards and interpretations did not have a material impact on the Interim Financial Information.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

4 SEGMENT REPORTING

Prior to disposal of TCK Company Limited and its subsidiaries "TCK Group", disposed manufacturing subsidiaries of the Group, (i.e. for the six months ended 30 September 2014), the Group's reportable and operating segments were as follows:

Retailing and Distribution: The manufacture and sale of own brand fashion accessories

CDM Sales: Manufacturing depending on the customer's chosen level of participation in the design process, concurrently works with its customer in designing the products and produces the same according to the customer's desired final design

Upon the completion on the disposal of TCK Group, which was mainly the manufacturing arm of the Group, on December 2014, the Company changed its reportable and operating segments as follows:

Retailing and Distribution: Sale of own brand fashion accessories

CDM Sales: Sale of products at the customer's chosen level of participation in the design process, concurrently works with its customer in designing the products and coordinating the manufacturers according to the customer's desired final design

The segment results for the six months ended 30 September 2015 and 2014 are presented below:

	Six months ended 30 September 2015 – unaudited					
	Retailing and distribution			CDM sales	Inter-segment elimination	Consolidated
	Mainland	Hong Kong	Sub-total			
	China					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	580	–	580	9,958	–	10,538
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	580	–	580	9,958	–	10,538
Reportable segment profit/(loss)	(34,961)	–	(34,961)	(713)	–	(35,674)
Unallocated expenses						(10,347)
Loss for the period						(46,021)

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

4 SEGMENT REPORTING *(continued)*

	Six months ended 30 September 2014 – unaudited					
	Retailing and distribution			CDM sales HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
	Mainland China HK\$'000	Hong Kong HK\$'000	Sub-total HK\$'000			
Revenue from external customers	3,775	1,631	5,406	63,694	–	69,100
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	3,775	1,631	5,406	63,694	–	69,100
Reportable segment profit/(loss)	(9,028)	(2,802)	(11,830)	(16,319)	–	(28,149)
Unallocated expenses						(7,239)
Loss for the period						(35,388)

5 OTHER REVENUE

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
Rental income	–	69
Interest income	10	22
Others	17	132
	27	223

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

6 OTHER NET (LOSSES) GAINS

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
Net exchange (losses) gains	(3,463)	373
Net losses on disposals of property, plant and equipment	–	(1,757)
Net losses on disposal of investment properties	(3,077)	–
Net gain on disposals of Disposed Companies	–	164
Reversal of impairment losses on other receivables recognized	270	1,530
	(6,270)	310

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
(a) Finance costs:		
Interest on borrowings wholly repayable within five years	–	1,048
	–	1,048
(b) Other items:		
Depreciation		
– other assets	612	1,259
– Investment properties	121	256
Amortization of prepaid lease payment	–	267
Operating lease charges in respect of properties:		
– minimum lease payments	824	5,230
Share – based payment to the Consultants	186	–
Cost of inventories recognised as an expense	9,800	61,624

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

8 INCOME TAX

For the six months ended
30 September
(unaudited)

	2015 HK\$'000	2014 HK\$'000
Current tax – Hong Kong Profits tax		
Under-provision in prior years	–	–
Current tax – PRC Enterprise income tax		
Provision for the period	–	–
Over-provision in prior years	–	–
Income tax expense	–	–

Notes:

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands (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 for the six months ended 30 September 2015 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 People's Republic of China (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%).
- (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.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

9 DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 September 2015 (for the six months ended 30 September 2014: Nil).

10 LOSS PER SHARE

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

Basic loss per share

	For the six months ended 30 September (unaudited)	
	2015	2014
Loss attributable to owners of the Company (HK\$'000)	46,021	35,388
Weighted average number of ordinary shares At 1 April and at 30 September (number of shares)	2,485,045,016	618,660,162
Basic loss per share (HK\$)	0.019	0.057

Diluted loss per share for six-month period ended 30 September 2015 and 30 September 2014 is not presented because the exercise of outstanding share options during the period have anti-dilutive effect on the basic loss per share.

Note: The weighted average number of ordinary shares for the six-month period ended 30 September 2014 for the purpose of basic earnings per share has been restated for the share consolidation effective on 18 November 2014.

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.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

11 TRADE AND OTHER RECEIVABLES

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

	As at 30 September 2015 (unaudited) HK\$'000	As at 31 March 2015 (audited) HK\$'000
Trade debtors		
Current	6,620	3,145
Less than 3 months past due	–	–
3 to 6 months past due	–	–
Over 6 months past due	247	158
Total trade debtors, net of impairment losses	6,867	3,303
Rental deposits	387	2,250
Advance to staff	114	804
Receivables from disposals of subsidiaries	100	100
Prepayment for acquisition of trademarks	31,000	–
Prepayment and other receivables	1,548	12,697
	40,016	19,154

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:

	As at 30 September 2015 (unaudited) HK\$'000	As at 31 March 2015 (audited) HK\$'000
Trade creditors		
By date of invoice:		
Within 3 months	4,633	1,083
More than 3 months but within 6 months	–	–
More than 6 months but within 1 year	105	–
Over 1 year	219	3,011
Trade creditors	4,957	4,094
Receipts in advance	1,875	6,430
VAT and other tax payables	–	13
Accrued wages and staff costs	147	819
Accrued charges and other payables	9,857	14,438
	16,836	25,794

All of the trade and other payables are expected to be settled within one year.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2015 | (Expressed in Hong Kong dollars)

13 SHARE CAPITAL

	Unaudited As at 30 September 2015		Audited As at 31 March 2015	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	30,000,000,000	300,000	30,000,000,000	300,000
Issued and fully paid:				
At the beginning and the end of the period	2,569,840,644	25,698	2,474,640,644	24,746

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

	As at 30 September 2015 (unaudited) HK\$'000	As at 31 March 2015 (audited) HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– Contracted for but not provided in the condensed consolidated financial statements	3,337	3,470

15 MATERIAL RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in these consolidated financial statements, in the opinion of the Directors, the Group did not enter any material related party transaction during the reporting period.

16 APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements of 2014 were approved by the board of directors on 25 November 2015.



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