

ARTINI

雅天妮



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

INTERIM REPORT 中期報告

2014-15


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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 (appointed on 1 October 2014)

AUDIT COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)

Mr. Lau Yiu Kit

Mr. Zeng Zhaohui (appointed on 1 October 2014)

REMUNERATION COMMITTEE

Mr. Zeng Zhaohui (*Chairman*)
(appointed on 1 October 2014)

Mr. Tse Hoi Chau

Mr. Lau Fai Lawrence

NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)

Mr. Tse Hoi Chau

Mr. Lau Yiu Kit

Mr. Zeng Zhaohui (appointed on 1 October 2014)

COMPANY SECRETARY

Ms. Ho Wing Yan, *ACIS, ACS(PE)*

AUTHORISED REPRESENTATIVES

Mr. Tse Hoi Chau (appointed on 13 April 2014)

Ms. Ho Wing Yan, *ACIS, ACS(PE)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

A18/F., Asia Orient Tower

Town Place, 33 Lockhart Road

Wanchai, Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat B1, 1st Floor

Kaiser Estate, Phase 1

41 Man Yue Street

Hunghom

Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank

The Hongkong and Shanghai Banking Corporation
Limited

LEGAL ADVISERS

Reed Smith Richards Butler

Conyers Dill & Pearman

Gonçalves Pereira, Rato, Ling, Vong & Cunha
– Avenida da Amizade

AUDITOR

Zhonglei (HK) CPA Company Limited

COMPANY'S WEBSITE

www.artini-china.com

STOCK CODE

789

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2014 (the "Period"), the Group recorded a total turnover of approximately HK\$69,100,000 (for the six months ended 30 September 2013: approximately HK\$115,015,000), representing a decrease of approximately 39.9% as compared with the same period last year. Gross profit was approximately HK\$7,476,000 (for the six months ended 30 September 2013: approximately HK\$27,339,000), representing a decrease of approximately 72.7% as compared with the same period last year. During the Period, loss attributable to the owners of the Company further widened to approximately HK\$35,388,000 (for the six months ended 30 September 2013: loss of approximately HK\$33,354,000). The increase of loss for the Period is attributable to (i) the decrease in the Group's revenue of approximately 40% for the six-month period ended 30 September 2014 as compared to that of the corresponding period in 2013; and (ii) continuous increase in manufacturing cost. Loss per share was HK\$0.029 (for the six months ended 30 September 2013: loss of HK\$0.027).

In the face of continuous economic uncertainties in Europe and Mainland China, our target customers in both markets were affected during the Period, resulting in weaker consumer sentiment.

RETAIL BUSINESS

During the Period, the Group's retail business was affected by the weakened consumer sentiment caused by economic uncertainties in our target market and intense market competition. To ease such impacts, the Group strategically reorganised its retail network through integrating internal resources and adopting stringent cost control measures. As at 30 September 2014, the Group had a total of approximately 10 retail points (As at 30 September 2013: 11 retail points) throughout the PRC and Hong Kong. During the Period, the retail business recorded a turnover of approximately HK\$5,406,000 (for the six months ended 30 September 2013: approximately HK\$19,937,000), accounting for approximately 7.8% of the Group's total turnover and representing a decrease of approximately 72.9% as compared with the same period last year.

During the Period, the turnover in retailing and distribution business decreased significantly mainly due to the strategic restructures on retailing such as closures on the shops with significant losses and reduction on low-efficient promotion activities. However, the performance of the retailing and distribution business improved and the losses from the retailing and distribution segment were approximately HK\$11,830,000, compared with the losses for the previous period of approximately HK\$16,535,000. The decrease by 28.5% in the losses during the Period was mainly resulted from our better cost control and success in change in strategy.

As at 30 September 2014, the number of VIP customers of "Artini" was 134,210, representing an increase of 16.0% 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

During the Period, the Group maintained close cooperation with internationally renowned brands to concurrently design and manufacture their branded products, and ultimately export and distribute these products worldwide. Such internationally renowned brands include Debenhams, Disney, Marks & Spencer, Tchibo and Vivienne Westwood.

During the Period, Europe, one of our principal regions of operations, was still facing challenging economic environments, resulting in a drop in its demand on imports, which consequently led to the unsatisfactory performance of the Group's CDM business. Our export business was affected by the intense market competition from manufacturers in Hong Kong, Mainland China and South Asia. The Group's CDM business recorded a turnover of approximately HK\$63,694,000 (for the six months ended 30 September 2013: approximately HK\$95,078,000), representing a approximately 33.0% decrease from the same period of last year and accounting for 92.2% of the total turnover.

Management Discussion and Analysis

The performance of the CDM business in the Period also remained unsatisfactory and the loss of the CDM segment was approximately HK\$16,319,000, compared with the profit for the previous period of approximately HK\$1,174,000. Due to the unsatisfactory selling price of the products as a result of the keen competition from manufacturers in Hong Kong, Mainland China and South Asia, and continuous inflation in the manufacturing cost in Guangdong Province, the CDM segment experienced losses for the six-month period ended 30 September 2014.

FINANCIAL REVIEW

For the Period, the Group recorded a total turnover of approximately HK\$69,100,000, representing a decrease of 39.9% as compared with the same period in 2013. The decrease was mainly due to the restructuring of the Group's business and the retail points. During the Period, the turnover of the retailing and distribution and CDM businesses were approximately HK\$5,406,000 and approximately HK\$63,694,000 respectively, accounting for approximately 7.8% and approximately 92.2% of the total turnover of the Group. The Group's turnover was mainly derived from the European, PRC (including Hong Kong), American and other markets, which accounted for 60.9%, 17.9%, 15.0% and 6.2% of the total turnover respectively, while the percentages for the same period last year were 34.2%, 35.2%, 17.8% and 6.1% respectively.

During the Period, gross profit decreased by approximately 72.7% to approximately HK\$7,476,000. Gross profit margin decreased to approximately 10.8% (for the six months ended 30 September 2013: approximately 23.8%). The cost of sales for the Period decreased by approximately 29.7% from approximately HK\$87,676,000 for the six months ended 30 September 2013 to approximately HK\$61,624,000. The decrease in cost of sales is mainly resulted from the decrease in the operation scale along with turnover. However, since the decrease in turnover was greater than the decrease in cost of sales, the gross profits experienced an overall decrease.

Selling and distribution costs for the Period decreased by approximately 72.3% to approximately HK\$8,139,000 as compared to approximately HK\$29,381,000 for the corresponding period in 2013. This decrease in selling expenses is mainly resulted from the stronger cost control over the Group on promotion and advertising channels.

The Group did not incur any income tax for the six months ended 30 September 2014 (for the six months ended 30 September 2013: Nil).

Liquidity and Financial Resources

As at 30 September 2014, the borrowing of the Group amounted to approximately HK\$19,000,000, which was denominated in Hong Kong dollar, secured by a pledge over a property with a carrying value of approximately HK\$6,870,000 and was repayable by 28 January 2015 or otherwise of demand. As such, it was classified as a current liability.

As at 30 September 2014, Mr. Tse, a controlling shareholder of the Group, advanced unsecured loans of approximately HK\$13 million in aggregate which are interest-free and repayable on demand.

Apart from the borrowings, the Group has pledged bank deposits of approximately HK\$800,000 to secure for bank guarantees in lieu of rental deposits in relation to certain shops leased by the Group.

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.

Management Discussion and Analysis

Foreign Exchange Exposure

The main business activities of the Group take place in the PRC, the United States, Europe and Hong Kong with most transactions settled in Renminbi, United States dollars and Hong Kong dollars. 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 gain of approximately HK\$373,000.

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 and the Board will decide what the best available source of funding is for investments and acquisitions when suitable opportunities arise.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2014 (31 March 2014: Nil).

Human Resources

As at 30 September 2014, the Group had approximately 380 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK\$9,328,000. 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

During the Period, conditions in the retail market remained challenging, and it was expected to take a prolonged period of time and more twists and turns before a recovery would happen. Meanwhile, market competition has become more intensified. In light of the above, the Group will adopt a proactive and prudent strategy towards brand building for its ongoing business operation. On one hand, the Group will continue its effort on streamlining its underlying structure, integrating internal and external resources, further reduction in unnecessary expenditures and costs, and strategic closure of certain underperforming stores in order to reduce the Group's burden, streamline the Group's structure and enhance its performance. On the other hand, we will slow down our sales network expansion, and focus on improving craftsmanship, enhancing quality and endeavour to achieve the highest quality in every Artini product. In the meantime, we will strengthen our team building by retaining and recruiting more talents, study and adjust our appraisal and incentive scheme, reinforce the obligation on business operation and highlight our efficiency-led principle so as to encourage positive contribution to promote the Company's internal production capability.

The "ARTINI" brand has undergone packaging upgrade and brand restructuring. In addition to consolidating its core business such as alloys and silver accessories, it will also diversify its product offerings, optimize product portfolio and improve the proportion of high margin products, and launch professional and differentiated innovative products with respect to market demand.

Management Discussion and Analysis

As to marketing strategies, the Group will enhance channel exploration. Leveraging on an extensive coverage of new media, we will increase interaction with consumers in an attempt to enhance customer loyalty. At the same time, we will launch an "O2O" business model through e-commerce platform to stimulate sales growth.

The Group will also strengthen its management in liquidity, internal risk and budget control. It will not only concentrate on achieving business volume growth, but will also strive to maintain high quality and sustainability of its business during the course of operations. We always stay alert of its risk and capital return and will duly review the Group's operation and strategic directions. We will consider the closure of some loss-making business and reallocate resources so as to procure better development for the Group.

The Group is continuously seeking opportunities for the Group to take on its present and futures challenges. As disclosed in the announcements dated on 23 September 2014, 9 October 2014 and 14 October 2014, the Group entered into an underwriting agreement for open offer to raise funds, an agreement for disposing a manufacturing subsidiary in the PRC and agreements in relation to disposal of the properties held as the Group's head office in Hung Hom, respectively. It is estimated that the net proceeds from the open offer, disposal of the subsidiaries and disposal of the properties are amounting to HK\$183.0 million, HK\$15.3 million and HK\$43.6 million, respectively.

Regarding the proceeds from the open offer, the Company intends to apply such net proceeds (i) as to approximately HK\$25 million will be used for expanding the existing accessories retailing business; (ii) as to approximately HK\$60 million will be used for entering into retailing business of branded watches in Guangdong Province. The Group is discussing with certain distributors for potential distribution rights of both middle-end and high-end branded watches in Guangdong Province; (iii) as to approximately HK\$19 million will be used for the repayment of a short-term loan from a financial institution, which is interest bearing at 10% per annum repayable in full on 28 January 2015 and secured by the Group's properties in Hong Kong in order to reduce the burden on financial cost; (iv) as to approximately HK\$13 million will be used for the repayment of an amount due to the controlling shareholder of the Company, which is interest-free, unsecured and repayable on demand; and (v) the remaining net proceeds of approximately HK\$66 million will be for the general working capital of the Group, mainly for the for the development and further upgrade of the Group's information system and information technology, e-advertising and general selling expenses.

Regarding the proceeds from the disposal of the subsidiaries and the properties, the Group currently plans to use (i) approximately HK\$10 million for traditional offline marketing and advertising in order to facilitate the expansion of the retailing business of the Group; (ii) approximately HK\$3 million for professional training for salespersons to improve the service quality and royalty of the staff; (iii) approximately HK\$40 million for acquiring new office premises for the Group; and (iv) approximately HK\$6.3 million for general working capital of the Group.

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.

Non-compliance with Rule 3.10(1) and 3.21 of the Listing Rules

Pursuant to Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. The Company was not in compliance with Rule 3.10(1) and Rule 3.21 since the resignation of Mr. Li Youhuan as an independent non-executive Director, chairman of the remuneration committee of the Company, member of the audit committee and the nomination committee of the Company, with effect from 22 August 2014 after which date the number of independent non-executive Directors was reduced to two. In this regard, the Company immediately informed the Stock Exchange and published an announcement on the same date containing the relevant details and reasons for the Company’s non-compliance with these requirements. To rectify this, the Company announced on 18 September 2014 that it has appointed Mr. Zeng Zhaohui as an independent non-executive Director with effect from 1 October 2014.

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.

Corporate Governance and Other Information

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.

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.

Corporate Governance and Other Information

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

As at 30 September 2014, 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 2014
Tse Hoi Chau	The Company	Corporate interest	542,633,994 (Note 1)	–	43.86%
		Beneficial interest	7,412,000	12,000,000 (Note 2)	1.56%
Lin Shao Hua	The Company	Beneficial interest	–	12,000,000 (Note 2)	0.97%

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 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 benefit of the Company and the shareholders of the Company as a whole. Details of share options movements during the Period under the Scheme are as follows:

Name of category	Date of grant of share options	Outstanding at 01.04.2014	Number of share options				Outstanding at 30.09.2014	Validity period of share options	Exercise price (HK\$)
			Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period			
Director									
Tse Hoi Chau	28.03.2014	12,000,000	-	-	-	-	12,000,000	28.03.2014-27.03.2019	0.2618
Lin Shao Hua	28.03.2014	12,000,000	-	-	-	-	12,000,000	28.03.2014-27.03.2019	0.2618
Yip Ying Kam (resigned on 13 April 2014)	24.02.2012	12,000,000	-	-	12,000,000	-	-	24.02.2012-23.02.2018 (Note)	0.2220
Employee									
In aggregate	28.03.2014	24,000,000	-	-	-	-	24,000,000	28.03.2014-27.03.2019	0.2618
Consultant									
In aggregate	28.03.2014	60,000,000	-	-	-	-	60,000,000	28.03.2014-27.03.2019	0.2618
Total		120,000,000	-	-	-	-	108,000,000		

Note: A maximum of 50% of the total number of share options granted to the grantee on 24 February 2012 may be exercisable between 24 February 2012 and 23 February 2015. The remaining 50% of the total number of share options granted to the grantee may be exercisable between 24 February 2015 and 23 February 2018.

Corporate Governance and Other Information

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

As at 30 September 2014, 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 2014
Walifax Investments Limited (<i>Note 1</i>)	Beneficial interest	542,633,994	43.86
Shanghai International Group Co., Ltd. (<i>Note 2</i>)	Beneficial interest	1,030,911,492	41.66

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

Note 2: Representing its interest through Guotai Junan Securities (Hong Kong) Limited who was the underwriter of the Company open offer of its shares, details of which are set out in the Company's announcement dated 23 September 2014.

Save as disclosed above, as at 30 September 2014, 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.

Corporate Governance and Other Information

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of relating to Directors' remuneration which became effective from 1 September 2014 are set out as follows:

Effective from 1 September 2014, Mr. Tse Hoi Chau is entitled to a monthly salary of HK\$200,000 (on a 13-month basis, HK\$2,600,000 per year); Mr. Lin Shao Hua is entitled to a monthly salary of HK\$30,000 (on a 13-month basis, HK\$390,000 per year). Their salaries were determined by reference to the prevailing market rate.

Mr. Lau Fai Lawrence, Mr. Lau Yiu Kit are each entitled to director's fees of HK\$120,000 per annum, both of which were effective from 1 September 2014 and determined by reference to the prevailing market rate.

By order of the Board

Artini China Co. Ltd.

Tse Hoi Chau

Executive Director

Hong Kong, 28 November 2014

Condensed Consolidated Income Statement

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

	Notes	For the six months ended 30 September (unaudited)	
		2014 HK\$'000	2013 HK\$'000
Turnover	4	69,100	115,015
Cost of sales		(61,624)	(87,676)
Gross profit		7,476	27,339
Other revenue	5	223	643
Other net gains (losses)	6	310	(5,612)
Selling and distribution costs		(8,139)	(29,381)
Administrative expenses		(34,200)	(24,668)
Other operating expenses		(10)	(1,022)
Loss from operations		(34,340)	(32,701)
Finance costs	7	(1,048)	(653)
Loss before taxation	7	(35,388)	(33,354)
Income tax	8	–	–
Loss for the period		(35,388)	(33,354)
Loss per share (HK\$)			
Basic and diluted	10	(0.029)	(0.027)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 HK\$'000
Loss for the period	(35,388)	(33,354)
Other comprehensive income:		
Exchange differences on consolidation	(595)	1,328
Disposals of Disposed Companies	179	–
	(416)	1,328
Total comprehensive loss for the period, net of tax	(35,804)	(32,026)

Condensed Consolidated Statement of Financial Position

As at 30 September 2014 | (Expressed in Hong Kong dollars)

	<i>Notes</i>	As at 30 September 2014 (unaudited) HK\$'000	As at 31 March 2014 (audited) HK\$'000
Non-current assets			
Property, plant and equipment		29,024	32,772
Investment properties		9,093	9,090
Interests in leasehold land held for own use under operating leases		7,538	7,717
Rental deposits		714	954
Deferred tax assets		640	628
		47,009	51,161
Current assets			
Inventories		8,770	12,864
Trade and other receivables	11	61,627	49,657
Prepaid lease payments		536	551
Amount due from related companies		–	129
Current tax recoverable		–	19
Pledged bank deposits and cash and cash equivalents		8,493	11,717
		79,426	74,937
Current liabilities			
Trade and other payables	12	68,232	37,484
Borrowings	13	19,000	26,350
Amount due to a director	14	13,000	–
Amount due to a related company		–	20
Current tax payable		2,635	2,693
		102,867	66,547
Net current (liabilities) assets		(23,441)	8,390
Total assets less current liabilities		23,568	59,551

Condensed Consolidated Statement of Financial Position

As at 30 September 2014 | (Expressed in Hong Kong dollars)

	<i>Note</i>	As at 30 September 2014 (unaudited) HK\$'000	As at 31 March 2014 (audited) HK\$'000
Non-current liabilities			
Deferred tax liabilities		148	148
		148	148
NET ASSETS		23,420	59,403
CAPITAL AND RESERVES			
Share capital	15	123,732	123,732
Reserves		(100,312)	(64,329)
TOTAL EQUITY		23,420	59,403

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2014 | (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	Non- controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2013	123,732	549,974	(20,183)	37,122	21,755	878	(561,689)	151,589	262	151,851
Changes in equity for the six months ended 30 September 2013:										
Total comprehensive loss for the period	-	-	-	1,328	-	-	(33,354)	(32,026)	-	(32,026)
Balance at 30 September 2013	123,732	549,974	(20,183)	38,450	21,755	878	(595,043)	119,563	262	119,825
Balance at 1 April 2014	123,732	549,974	(19,518)	38,730	21,755	14,718	(669,988)	59,403	-	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)	-	(35,388)
Other comprehensive loss	-	-	-	(595)	-	-	-	(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	-	23,420

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 HK\$'000
Net cash used in operations	(7,806)	(25,799)
Tax paid	(39)	(812)
Net cash used in operating activities	(7,845)	(26,611)
Net cash used in investing activities	(980)	(2,335)
Net cash generated from (used in) financing activities	5,650	(8,305)
Net decrease in cash and cash equivalents	(3,175)	(37,251)
Cash and cash equivalents at 1 April	11,717	52,456
Effect of foreign exchange rate changes	(49)	(331)
Cash and cash equivalents at 30 September	8,493	14,874
Analysis of Pledged bank deposits and cash and cash equivalents:		
Cash and cash equivalents	7,693	14,874
Pledged bank deposits	800	–
	8,493	14,874

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (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, 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 2013/2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014/2015 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 2013/2014 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 2013/2014 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 2014 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 2014 are available from the Company's registered office.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014. In the current interim period, the Group has applied, for the first time, certain new or revised standards, amendments and interpretations (the "New or Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 April 2014. The application of these New or Revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted the following new or revised standards and amendments that have been issued but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The adoption of these amendments to HKFRSs and new interpretation did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior periods.

The directors of the Company anticipate that the application of the above new or revised standards and amendments will have no material impact on the results and the financial position of the Group.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

4 SEGMENT REPORTING

The segment results for the six months ended 30 September 2014 and 2013 are presented below:

	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)

	Six months ended 30 September 2013 – 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	13,743	6,194	19,937	95,078	–	115,015
Inter-segment revenue	–	–	–	7,047	(7,047)	–
Reportable segment revenue	13,743	6,194	19,937	102,125	(7,047)	115,015
Reportable segment profit/(loss)	(11,236)	(5,299)	(16,535)	1,174	–	(15,361)
Unallocated expenses						(17,993)
Loss for the period						(33,354)

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

5 OTHER REVENUE

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 HK\$'000
Rental income	69	20
Interest income	22	37
Others	132	586
	223	643

6 OTHER NET GAINS (LOSSES)

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 HK\$'000
Net exchange gains	373	1,862
Net losses on disposals of property, plant and equipment	(1,757)	(1,983)
Net gain on disposals of Disposed Companies	164	–
Impairment losses recognised in respect of property, plant and equipment	–	(3,745)
Impairment losses recognised in respect of trade receivables	–	(1,746)
Reversal of impairment losses on other receivables recognized	1,530	–
	310	(5,612)

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 HK\$'000
(a) Finance costs:		
Interest on borrowings wholly repayable within five years	1,048	637
Finance charges on obligations under finance leases	–	16
	1,048	653
(b) Other items:		
Depreciation		
– assets held for use under finance lease	–	80
– other assets	1,259	4,439
– Investment properties	256	402
Amortization of prepaid lease payment	267	266
Operating lease charges in respect of properties:		
– minimum lease payments	5,230	6,416
– contingent rent	–	1,190
Cost of inventories recognised as an expense (<i>note</i>)	61,624	84,954

Note:

Included in the cost of inventories recognised as an expense is Nil for the six months ended 30 September 2014 (for the six months ended 30 September 2013: HK\$4,917,000), related to the write-down of closing inventories.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

8 INCOME TAX

	For the six months ended 30 September (unaudited)	
	2014 HK\$'000	2013 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 2013 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%). For the subsidiary located in Hai Feng, the statutory income tax rate has changed from 24% to 25% from 1 January 2008.
- (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 2014 (for the six months ended 30 September 2013: Nil).

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

10 LOSS PER SHARE

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

(a) Basic loss per share

	For the six months ended 30 September (unaudited)	
	2014	2013
Loss attributable to owners of the Company (HK\$'000)	35,388	33,354
Weighted average number of ordinary shares At 1 April and at 30 September (number of shares)	1,237,320,323	1,237,320,323
Basic loss per share (HK\$)	0.029	0.027

(b) Diluted loss per share

Diluted loss per share amounts for the current and prior periods are the same as the basic 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 periods.

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 2014 (unaudited) HK\$'000	As at 31 March 2014 (audited) HK\$'000
Trade debtors		
Current	18,638	11,344
Less than 3 months past due	2,966	6,816
3 to 6 months past due	15,528	2,931
Over 6 months past due	8,952	3,370
Total trade debtors, net of impairment losses	46,084	24,461
VAT and other tax receivables	796	–
Deposits, prepayments and other receivables	14,747	25,196
	61,627	49,657

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 2014 | (Expressed in Hong Kong dollars)

12 TRADE AND OTHER PAYABLES

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

	As at 30 September 2014 (unaudited) HK\$'000	As at 31 March 2014 (audited) HK\$'000
Trade creditors		
By date of invoice:		
Within 3 months	2,444	4,844
More than 3 months but within 6 months	351	347
More than 6 months but within 1 year	3,089	510
Over 1 year	23	334
Trade creditors	5,907	6,035
Receipts in advance	8,190	4,491
VAT and other tax payables	–	2,490
Accrued wages and staff costs	11,957	9,098
Accrued charges and other payables	42,178	15,370
	68,232	37,484

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

13 BORROWING

At the end of the reporting period, the borrowing of the Group, which is denominated in HKD, is secured by certain properties with carrying amount of HKD6,870,000. In addition, Mr. Tse Hoi Chau, one of the Directors of the Group, has provided personal guarantee to the extent of HK\$19,000,000 to secure the borrowing granted to the Group.

14 AMOUNT DUE TO A DIRECTOR

Unsecured loans of HK\$13,000,000 granted by Mr. Tse, a controlling shareholder of the Company which are interest-free and are repayable on demand.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

15 SHARE CAPITAL

	Unaudited As at 30 September 2014		Audited As at 31 March 2014	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid:				
At the beginning and the end of the period	1,237,320,323	123,732	1,237,320,323	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.

16 CAPITAL COMMITMENTS

	As at 30 September 2014 (unaudited) HK\$'000	As at 31 March 2014 (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	3,461	3,586

17 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.

Notes To The Unaudited Interim Financial Statements

For the six months ended 30 September 2014 | (Expressed in Hong Kong dollars)

18 SEQUENT EVENTS

On 18 September 2014, the Group entered into the writing agreement regarding 1,855,980,483 offer shares. Immediately before the issue of new ordinary shares, it was proposed that every two Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company will be consolidated into one Consolidated Shares of HK\$0.20. The issued share capital of the Company would be reduced by the cancellation of (a) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01 and (b) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation.

Following the Share Consolidation and the Capital Reduction, each authorized but unissued Consolidated Share (including all those arising from the Capital Reduction) will be sub-divided into twenty new shares of HK\$0.01 each.

Based on the Existing Shares as at the Latest Practical Date, a credit of approximately HK\$117,545,430 will arise as a result of the Capital Reduction. The credit would be transferred to the contribution surplus account of the Company. The whole sum of HK\$117,545,430 in the contribution surplus in the contributed surplus was set off by part of accumulated losses.

Following the share consolidation, it was proposed 1,855,980,483 ordinary shares would be allotted at HK\$0.1 per share, representing 300% of the issued share capital of the Company immediately after the completion of the Capital Reorganization. The total net consideration of HK\$183,000,000 is expected to be received.

The share reorganization and issue of new shares was approved in SGM on 17 November 2014.

On 9 October 2014, Artist Star International Limited, a wholly owned subsidiary of the Group, enter the sales and purchase agreement with Celestial Elite Investments Limited, wholly owned by Mr. Tse Hoi Chau, the controlling shareholder of the Group, for the disposal of the all issue of share capital of TCK Company Limited with total consideration of HK\$16,257,000. It is estimated the gains of HK\$23,350,000 will arise from the disposal on the subsidiary. The disposal was approved in the SGM on 17 November 2014.

On 14 October 2014, the Group has entered certain provisional agreements with independent third parties regarding the disposal of certain properties with total consideration of HK\$44,000,000. It is estimated the gain of HK\$34,401,000 will arise from the disposal on the properties.

19 APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements of 2014 were approved by the board of directors on 28 November 2014.



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