Report of Independent Auditor on the Combined Financial Statements

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

We have audited the combined financial statements of Artini China Co. Ltd. (the "Company") and the subsidiaries as set out in note 1(b) now comprising the group (hereinafter collectively referred to as the "Group"), set out on pages 50 to 119, which comprise the combined balance sheet as at 31 March 2008, and the combined income statement, the combined statement of changes in equity and the combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The combined financial statements have been prepared in accordance with the "Basis of presentation" set out in note 1(c) and the accounting policies set out in note 2.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Report of Independent Auditor on the Combined Financial Statements

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

OPINION

In our opinion, the combined financial statements have been properly prepared in accordance with the "Basis of presentation" set out in note 1(c) and the accounting policies set out in note 2 and, on that basis, give a true and fair view of the state of affairs of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended as if the Group's reorganisation had been effected on 1 April 2007 and the group structure had been in existence then.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 July 2008

Combined Income Statement

for the year ended 31 March 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK$'000	2007 HK$'000
Turnover	3, 12	**596,739**	339,480
Cost of sales		**(220,313)**	(147,784)
Gross profit		**376,426**	191,696
Other revenue	4	**246**	546
Other net loss	5	**(8,223)**	(872)
Selling and distribution costs		**(195,883)**	(75,223)
Administrative expenses		**(40,650)**	(31,312)
Other operating expenses		**(1,479)**	(580)
Profit from operations		**130,437**	84,255
Finance costs	6(a)	**(3,996)**	(2,779)
Profit before taxation	6	**126,441**	81,476
Income tax	7(a)	**(16,417)**	(7,988)
Profit for the year attributable to equity shareholders of the Company		**110,024**	73,488
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend declared and paid during the year	10	**69,000**	16,000
Special dividend proposed after the balance sheet date	10	**40,000**	—
Basic and diluted earnings per share (HK$)	11	**0.147**	0.098

The notes on page 57 to 119 form part of these financial statements.

Combined Balance Sheet

as at 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Fixed assets	13		
— Property, plant and equipment		**68,452**	34,620
— Interests in leasehold land held for own use under operating leases		**21,745**	21,238
Intangible assets	14	**593**	592
Rental deposits		**10,130**	1,630
Deferred tax assets	22(b)	**4,294**	1,321
		105,214	59,401
Current assets			
Inventories	15	**56,491**	27,949
Trade and other receivables	16	**153,300**	115,724
Tax recoverable	22(a)	**721**	2,000
Cash and cash equivalents	18	**59,356**	24,032
		269,868	169,705
Current liabilities			
Trade and other payables	19	**63,492**	52,203
Bank loans and overdrafts	20	**114,142**	27,376
Obligations under finance leases	21	**345**	321
Current taxation	22(a)	**15,118**	15,303
		193,097	95,203
Net current assets		**76,771**	74,502
Total assets less current liabilities		**181,985**	133,903

Combined Balance Sheet

as at 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Bank loans	20	**26,427**	32,046
Obligations under finance leases	21	**181**	526
Deferred tax liabilities	22(b)	**1,015**	684
		27,623	33,256
NET ASSETS		**154,362**	100,647
CAPITAL AND RESERVES	23		
Share capital		**385**	384
Reserves		**153,977**	100,263
TOTAL EQUITY		**154,362**	100,647

Approved and authorised for issue by the board of directors on 21 July 2008.

Tse Chiu Kwan
Director

Yip Ying Kam
Director

The notes on page 57 to 119 form part of these financial statements.

Combined Statement of Changes in Equity

for the year ended 31 March 2008
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company					
	Note	Share capital	Retained earnings	Translation reserve (note 23(b)(i))	PRC statutory reserves (note 23(b)(ii))	Legal reserve (note 23(b)(iii))	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2006		383	39,928	518	362	97	41,288
Net profit for the year		–	73,488	–	–	–	73,488
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		–	–	1,870	–	–	1,870
Dividend paid	10	–	(16,000)	–	–	–	(16,000)
Issue of shares		1	–	–	–	–	1
Appropriation to reserves		–	(3,615)	–	3,615	–	–
At 31 March 2007		384	93,801	2,388	3,977	97	100,647
At 1 April 2007		**384**	**93,801**	**2,388**	**3,977**	**97**	**100,647**
Net profit for the year		**–**	**110,024**	**–**	**–**	**–**	**110,024**
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		**–**	**–**	**12,690**	**–**	**–**	**12,690**
Dividend paid	10	**–**	**(69,000)**	**–**	**–**	**–**	**(69,000)**
Issue of shares		**1**	**–**	**–**	**–**	**–**	**1**
Appropriation to reserves		**–**	**(11,823)**	**–**	**11,823**	**–**	**–**
At 31 March 2008		**385**	**123,002**	**15,078**	**15,800**	**97**	**154,362**

The notes on page 57 to 119 form part of these financial statements.

Combined Cash Flow Statement

for the year ended 31 March 2008

(Expressed in Hong Kong dollars)

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Profit before taxation		126,441	81,476
Adjustments for:			
— Depreciation	6(c)	14,045	7,184
— Finance costs	6(a)	3,996	2,779
— Interest income		(230)	(273)
— Net loss/(gain) on disposal of property, plant and equipment		578	(90)
— Impairment losses on trade and other receivables		1,021	210
— Foreign exchange gain		(1,386)	(466)
Operating profit before changes in working capital		144,465	90,820
Increase in inventories		(26,490)	(10,953)
Increase in trade and other receivables		(53,441)	(29,320)
Increase in trade and other payables		12,560	9,881
Cash generated from operations		77,094	60,428
Tax paid	22(a)		
— Hong Kong Profits Tax paid		(2,509)	(729)
— PRC tax paid		(15,456)	—
Net cash generated from operating activities		59,129	59,699
Investing activities			
Payment for the purchase of property, plant and equipment		(45,038)	(35,483)
Proceeds from sale of property, plant and equipment		—	651
Interest received		230	273
Payment for purchase of intangible assets		(1)	(592)
Changes in amount due from a director		(53,867)	(47,899)
Net cash used in investing activities		(98,676)	(83,050)

Combined Cash Flow Statement

for the year ended 31 March 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK$'000	2007 HK$'000
Financing activities			
Capital element of finance lease rentals paid		(321)	(473)
Proceeds from new bank loans		80,000	21,000
Repayment of bank loans		(5,619)	(5,252)
Proceeds from new shares issued		1	1
Interest element of finance lease rentals paid		(50)	(38)
Other borrowing costs paid		(3,946)	(2,741)
Changes in amounts due to related parties		(55)	—
Changes in amount due to a director		(2,301)	2,061
Net cash generated from financing activities		67,709	14,558
Net increase/(decrease) in cash and cash equivalents		28,162	(8,793)
Cash and cash equivalents at 1 April		12,276	20,993
Effect of foreign exchange rate changes		396	76
Cash and cash equivalents at 31 March	18	40,834	12,276

Combined Cash Flow Statement

for the year ended 31 March 2008
(Expressed in Hong Kong dollars)

MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2008, dividends of HK$69,000,000 (2007: HK$16,000,000) were paid by AE Gifts, Gentleman, AE Jewellery Enterprise, TCK and Arts Empire to their then shareholders before they become subsidiaries of the Company pursuant to the Reorganisation (note 1(b)). Such dividends of approximately HK$66,728,000 (2007: HK$16,000,000) were settled by offsetting an equivalent amount against the amount due from a director, who is also the beneficiary owner of the respective companies at the instructions of the relevant shareholders.

During the year ended 31 March 2007, the Group acquired a motor vehicle for approximately $1,515,000 of which approximately $1,000,000 was financed by a new finance lease.

The notes on page 57 to 119 form part of these financial statements.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(a) General information

The Company was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Companies Act 1981 (as amended) of Bermuda. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008. The addresses of the registered office and principal place of business of the Company are disclosed in page 2 of the annual report.

As at 31 March 2008, 100 nil-paid shares were held by a group of ultimate equity shareholders (referred to as the "Controlling Shareholders"). The Company did not carry on any business during the period from the date of incorporation to 31 March 2008.

These financial statements have been approved for issue by the Board of Directors on 21 July 2008.

(b) Reorganisation

The Controlling Shareholders owned various companies which are principally engaged in the design, manufacturing, retailing and distribution and concurrent design manufacturing ("CDM") of fashion accessories. To rationalise the corporate structure for the public listing of the Company's shares on the Stock Exchange, the Company underwent a reorganisation (the "Reorganisation") to acquire all the companies set out below. The Reorganisation of the Company and the subsidiaries now comprising the Group was complete on 23 April 2008 and the Company became the holding company of the subsidiaries now comprising the Group.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

Details of the Reorganisation are set out in the prospectus dated 2 May 2008 (the "Prospectus") issued by the Company. The Company and its subsidiaries now comprising the Group as set out below are principally engaged in design, manufacturing, retailing and distribution and CDM of fashion accessories.

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Alfreda International Company Limited ("Alfreda International")	Macao 22 March 2007	—	100	MOP50,000	Retailing of fashion accessories
Artini International Company Limited ("Artini HK")	Hong Kong 16 July 2003	—	100	HK$300,000	Retailing of fashion accessories
Artini Sales Company Limited ("Artini Sales")	Hong Kong 9 June 1992	—	100	HK$10,000	Trading of fashion accessories
Artist Empire Gifts & Premium Mfy. Limited ("AE Gifts")	Hong Kong 11 February 2004	—	100	HK$10,000	Trading of fashion accessories
Artist Empire International Group Company Limited ("AE International")	Hong Kong 10 September 1996	—	100	HK$10,000	Investment holding
Artist Empire Jewellery Enterprise Company Limited ("AE Jewellery Enterprise")	Hong Kong 2 April 2005	—	100	HK$10,000	Trading of fashion accessories and related raw materials

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Artist Empire Jewellery Mfy. Limited ("AE Jewellery Mfy.")	Hong Kong 8 September 2006	—	100	HK$100	Trading of fashion accessories
Artist Empire Silver Jewellery Mfy. Limited ("AE Silver")	Hong Kong 7 January 2004	—	100	HK$10,000	Trading of fashion accessories
Artist Empire (Hai Feng) Jewellery Mfy. Limited ("AE Haifeng") (note)	The People's Republic of China ("PRC") 28 March 2002	—	100	HK$52,200,000	Manufacturing and sale of fashion accessories
Artist Star International Development Limited ("Artist Star")	British Virgin Islands ("BVI") 7 December 2004	100	—	US$1,000	Investment holding
Artplus Investment Limited ("Artplus")	Hong Kong 9 June 1992	—	100	HK$10,000	Trading of fashion accessories
Arts Empire Macao Commercial Offshore Limited ("Arts Empire")	Macao 14 January 2005	—	100	MOP200,000	Trading of fashion accessories and related raw materials
Bo-Wealth (Shenzhen) Trading Co. Ltd. ("Bo-Wealth") (note)	PRC 19 October 2006	—	100	HK$1,500,000	Trading of fashion accessories
Elili Int'l Company Limited ("Elili")	Hong Kong 19 July 2006	—	100	HK$100	Trading of fashion accessories

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Gain Trade Enterprise Limited ("Gain Trade")	Hong Kong 15 October 2004	—	100	HK$100	Investment holding
Gentleman Investments Limited ("Gentleman")	Hong Kong 20 January 1993	—	100	HK$10,000	Investment holding
Ho Easy Limited ("Ho Easy")	BVI 3 May 2004	—	100	US$1	Investment holding
Instar International Company Limited ("Instar International")	BVI 25 November 2004	—	100	US$100	Investment holding
JCM Holdings Limited ("JCM")	BVI 7 December 2004	—	100	US$500	Investment holding
Keon Company Limited ("Keon")	Hong Kong 27 April 2005	—	100	HK$10,000	Provision of logistics services
King Erich International Development Limited ("King Erich")	BVI 7 December 2004	—	100	US$300	Investment holding
Q'ggle Company Limited ("Q'ggle Company")	Hong Kong 19 July 2006	—	100	HK$100	Retailing of fashion accessories
Riccardo International Trading Limited ("Riccardo")	BVI 7 December 2004	—	100	US$700	Investment holding
Shop Front Trading Limited ("Shop Front")	BVI 20 December 2000	—	100	US$100	Provision of product design services

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the Company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Shenzhen Artini Fashion Accessories Co., Ltd. ("Shenzhen Artini") (note)	PRC 6 June 2006	—	100	HK$20,000,000	Retailing of fashion accessories
TCK Company Limited ("TCK")	BVI 25 November 2004	—	100	US$100	Trading of fashion accessories and related raw materials

Note: These entities are wholly owned foreign enterprises established in the PRC. The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(c) Basis of presentation

Note 1(b) describes the Reorganisation of the Group that took place prior to its listing on the Stock Exchange on 16 May 2008. Since the Reorganisation was not completed until 23 April 2008, the effect of the Reorganisation is not reflected in the Company's financial statements for the period from 30 May 2007 (date of incorporation) to 31 March 2008 as set out in pages 122 to 138.

However, since all entities which took part in the Reorganisation were under common control of the Controlling Shareholders before and immediately after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and therefore this is considered as a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. These combined financial statements have been prepared by using the merger basis of accounting as if the Group had been in existence throughout the periods presented. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(c) Basis of presentation (continued)

Accordingly, the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the years ended 31 March 2007 and 2008 include the results of operations of the companies comprising the Group for the years ended 31 March 2007 and 2008 (or where the companies were established/incorporated at a date later than 1 April 2006, for the periods from the date of establishment/incorporation to 31 March 2008) as if the combined entities had been in existence throughout the years presented. The combined balance sheets of the Group as at 31 March 2007 and 2008 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the combined entities had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

These combined financial statements do not form part of the Company's financial statements for the period ended 31 March 2008. However, they will form the basis of the comparative information in the Company's financial statements for the year ending 31 March 2009. This is because, when adopting the merger basis of accounting, in the period in which the Reorganisation is first reflected in the financial statements, the financial statement items for any comparative periods should be included in the financial statements as if the Reorganisation had taken place from the beginning of the earliest period presented.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

Up to the date of issue of these combined financial statements, the HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing these combined financial statements, the Group has adopted all these new and revised HKFRSs throughout the years presented, except for any new standards or interpretation that are not yet effective for the accounting period ended 31 March 2008. The revised and new accounting standards and interpretation issued but not yet effective for the accounting period ended 31 March 2008 are set out in note 2(w).

(b) Basis of preparation of the combined financial statements

The measurement basis used in the preparation of the combined financial statements is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the combined financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries

(i) Subsidiaries

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

(ii) Acquisition from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's combined financial statements.

(iii) Transactions eliminated on combination

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Property, plant and equipment

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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

— Buildings, situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.	
— Leasehold improvements	Remaining term of the lease
— Office equipment	5 years
— Furniture and fixtures	5 years
— Motor vehicles	5 years
— Plant and machinery	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Lease prepayments

Lease prepayments represent cost of land use rights in the PRC. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(g)). Amortisation is charged to the combined income statement on a straight-line basis over the respective periods of the rights which range from 41 to 48 years.

(f) Leased assets

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leased assets (continued)

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets

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

— property, plant and equipment; and

— lease prepayments.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the combined income statement in the year in which the reversals are recognised.

(h) Intangible assets

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

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

(i) Inventories

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories (continued)

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

(j) Trade and other receivables

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

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

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

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and the Hong Kong Mandatory Provident Fund Schemes Ordinance and the social welfare scheme for the Group's employees in Macao are recognised as an expense in the combined income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Termination benefits

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

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

  — the same taxable entity; or

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

(p) Provisions and contingent liabilities

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue and income recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the combined income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and sales returns. Accumulated experience is used to estimate and provide for sales returns at time of sale.

(ii) Interest income

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

(iii) Government subsidy

Subsidy income is recognised when it is probable that the grant will be received and all attaching conditions will be satisfied.

(r) Translation of foreign currencies

Items included in the combined financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These combined financial statements are presented in Hong Kong dollars ("HKD"), which is also the Company's presentation currency and functional currency.

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Translation of foreign currencies (continued)

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly as a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in the combined income statement in the period in which they are incurred.

(t) Store pre-operating costs

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

(u) Related parties

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties (continued)

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

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

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format and business segment is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Unallocated items comprise mainly financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective in respect of the year ended 31 March 2008, and have not been applied in preparing these combined financial statements:

— HKFRS 3 (Revised) Business Combinations which is effective for accounting periods beginning on or after 1 July 2009, is not expected to have any material impact on these combined financial statements.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) New standards and interpretations not yet adopted (continued)

— HKFRS 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

HKFRS 8, which becomes mandatory for the Group's 2009 financial statements and replaces HKAS 14 Segment Reporting, is not expected to have any material impact on these combined financial statements.

— HKAS 27 (Revised) Combined and Separate Financial Statements requires accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions, which applies for accounting periods beginning on or after 1 July 2009, is not expected to have any material impact on these combined financial statements.

— HK (IFRIC) 13 Customer Loyalty Programmes concludes that customer loyalty programmes should be recognised as a revenue-generating activity, to be recognised as and when an entity has fulfilled its obligation towards the customer, which applies for accounting periods beginning on or after 1 July 2008, is not expected to have any material impact on these combined financial statements.

— HKAS 1 (revised) Presentation of financial statements affects the presentation of changes in owner's equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 1 (revised) applies for accounting periods beginning on or after 1 January 2009 and replaces HKAS 1 Presentation of financial statements (issued in 2004) as amended in 2005, is not expected to have any material impact on the Group's results of operations and combined financial position.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

3 TURNOVER

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

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

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

	2008 HK$'000	2007 HK$'000
Retailing and distribution		
— Hong Kong and Macao	**28,190**	44,035
— PRC	**269,273**	34,631
CDM	**299,276**	260,814
	596,739	339,480

4 OTHER REVENUE

	2008 HK$'000	2007 HK$'000
Interest income	**230**	273
Others	**16**	273
	246	546

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

5 OTHER NET LOSS

	2008 HK$'000	2007 HK$'000
Net exchange loss	**(8,203)**	(1,253)
Reversal of provision for long service payments	**558**	—
Net (loss)/gain on disposal of property, plant and equipment	**(578)**	90
Others	**—**	291
	(8,223)	(872)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2008 HK$'000	2007 HK$'000
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**1,764**	1,398
Interest on bank advances wholly repayable beyond five years	**2,182**	1,343
Finance charges on obligations under finance leases	**50**	38
	3,996	2,779
(b) Staff costs:		
Contributions to defined contribution retirement plans	**6,756**	3,783
Salaries, wages and other benefits	**117,486**	64,982
	124,242	68,765

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

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefits schemes ("the Schemes") organised by the relevant local government authorities in the PRC whereby the Group is required to make contributions to the Schemes at rates ranging from 18% to 22%.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAXATION (continued)

Profit before taxation is arrived at after charging: (continued)

(b) Staff costs: (continued)

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

The Group also participates in a social welfare scheme for its employees in Macao. Under the social welfare scheme, the Group is required to contribute HK$30 for each employee and the employee is required to contribute HK$15 on a monthly basis.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

	2008	2007
	HK$'000	HK$'000
(c) Other items:		
Depreciation		
— assets held for use under finance lease	**303**	303
— other assets	**13,742**	6,881
Impairment losses on trade and other receivables	**1,021**	210
Auditors' remuneration	**2,744**	787
Advertising and promotion expenses	**12,280**	16,597
Operating lease charges in respect of properties:		
— contingent rent	**36,341**	8,638
— minimum lease payments	**47,246**	9,417
Operating lease charges in respect of billboards	**6,010**	1,600

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT

(a) Taxation in the combined income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	1,910	4,563
Under-provision in respect of prior year	35	—
Current tax — PRC income tax		
Provision for the year	17,114	4,240
Deferred tax		
Origination and reversal of temporary differences	(2,642)	(815)
	16,417	7,988

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

	2008 HK$'000	2007 HK$'000
Profit before taxation	126,441	81,476
Income tax calculated at the rates applicable to profits in the tax jurisdiction concerned	20,396	11,323
Tax effect of non-deductible expenses	1,764	1,131
Tax effect of non-taxable income	(29)	(210)
Tax effect of unused tax losses and temporary differences not recognised	302	989
Effect of utilisation of tax losses not recognised in prior years	(212)	(1,801)
Effect of tax exemptions granted to subsidiaries	(5,839)	(3,444)
Under-provision in respect of prior year	35	—
Actual tax expense	16,417	7,988

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT (continued)

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

Notes:

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

(ii) The provision for Hong Kong Profits Tax for the year is calculated at 17.5% of the estimated assessable profits for both years.

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

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

(v) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax as follows:

— Artist Empire (Hai Feng) Jewellery Mfy. Limited ("AE Haifeng") is a foreign invested enterprise established in Haifeng, the PRC and eligible to a preferential tax rate of 24%. AE Haifeng is entitled to a tax concession period during which it is fully exempted from PRC enterprise income tax for two years starting from its first profit-making year in 2005, followed by a 50% reduction in the PRC enterprise income tax for three years through 2009.

— Shenzhen Artini Fashion Accessories Co., Ltd. ("Shenzhen Artini") and Bo-Wealth (Shenzhen) Trading Co. Ltd. ("Bo-Wealth") are foreign invested enterprises located in Shenzhen, the PRC and are subject to a preferential tax rate of 15%. Bo-Wealth has not generated assessable profit since its operations in 2006.

(vi) On 16 March 2007, the Fifth Plenary Session of the Tenth NPC passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008, the applicable tax rate for the Group's PRC subsidiaries is expected to gradually increase to the standard rate of 25%. Production foreign invested enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption or reduction in income tax rate during the five-year transition period. The State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which set out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from PRC enterprise income tax, will continue to enjoy the preferential income tax rate up to the end of the above mentioned tax holidays, after which, the 25% standard rate applies. The PRC subsidiaries of the Group that enjoyed the preferential rate of 15% prior to 1 January 2008 will be subject to the rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and finally be subject to the tax rate of 25% in 2012.

Further under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No. 1, pursuant to which dividend distributions out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT (continued)

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

Notes: (continued)

(vii) On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced the Annual Budget which proposes a cut in Hong Kong profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008–09 and a one-off reduction of 75% of the tax payable for 2007–08 assessment subject to a ceiling of HK$25,000. The changes to the profits tax legislation were substantively enacted on 27 February 2008. In accordance with the Group's accounting policy set out in note 2(o), the financial implications of these changes have been made to the combined financial statements.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 March 2008

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Tse Chiu Kwan	—	2,362	—	12	2,374
Yip Ying Kam	—	2,362	—	12	2,374
Xie Hai Hui	—	240	—	—	240
Ho Pui Yin, Jenny	—	1,086	—	12	1,098
Independent non-executive directors					
Chan Man Tuen, Irene (Note)	—	—	—	—	—
Lau Fai, Lawrence (Note)	—	—	—	—	—
Fan Chung Yue, William (Note)	—	—	—	—	—
	—	6,050	—	36	6,086

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION (continued)

Year ended 31 March 2007

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Tse Chiu Kwan	—	2,731	—	12	2,743
Yip Ying Kam	—	2,731	—	12	2,743
Xie Hai Hui	—	240	—	—	240
Ho Pui Yin, Jenny	—	996	—	12	1,008
Independent non-executive directors					
Chan Man Tuen, Irene (Note)	—	—	—	—	—
Lau Fai, Lawrence (Note)	—	—	—	—	—
Fan Chung Yue, William (Note)	—	—	—	—	—
	—	6,698	—	36	6,734

There were no amounts paid during the year (2007: $nil) to the directors and the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Note: The independent non-executive directors were appointed on 23 April 2008.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, Tse Chiu Kwan, Yip Ying Kam and Ho Pui Yin, Jenny are directors during the years ended 31 March 2008 and 2007 respectively whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other emoluments	**1,857**	1,600
Discretionary bonuses	**—**	—
Retirement scheme contributions	**22**	24
	1,879	1,624

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2008 Number of individuals	2007 Number of Individuals
HK$Nil–HK$1,000,000	**1**	1
HK$1,000,001–HK$1,500,000	**1**	1

10 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2008 HK$'000	2007 HK$'000
Interim dividend declared and paid during the year	**69,000**	16,000
Special dividend proposed after the balance sheet date	**40,000**	—

Dividends presented during the year represent dividends declared by AE Gifts, Gentleman, AE Jewellery Enterprise, TCK and Arts Empire, to their then shareholders before they became subsidiaries of the Company pursuant to the Reorganisation (note 1(b)). All the dividends have been fully settled in March 2008.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

The directors proposed the payment of a special dividend of HK$0.04 per share after the balance sheet date, which has not been recognised as a liability at the balance sheet date.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

11 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the year and the 750,000,000 shares in issue and issuable, comprising 200,000,000 shares in issue at the 2 May 2008 and 550,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the prospectus dated 2 May 2008 issued by the Company as if the shares were outstanding throughout both 2007 and 2008.

There were no dilutive potential ordinary shares during the year.

12 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

CDM	:	manufacturing depending on the customer's chosen level of participation in the design process, concurrently works with its customer in designing the products and produces the same according to the customer's desired final design.
Retailing and distribution	:	the manufacture and sale of own brand fashion accessories.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Business segments (continued)

	2008					
	Retailing and distribution					
	Mainland China HK$'000	Hong Kong and Macao HK$'000	Sub-total HK$'000	CDM sales HK$'000	Inter-segment elimination HK$'000	Combined HK$'000
Revenue from external customers	269,273	28,190	297,463	299,276	—	596,739
Inter-segment revenue	—	—	—	44,289	(44,289)	—
Total	269,273	28,190	297,463	343,565	(44,289)	596,739
Segment result	95,959	(8,411)	87,548	83,539	—	171,087
Unallocated operating income and expenses						(40,650)
Profit from operations						130,437
Finance costs						(3,996)
Taxation						(16,417)
Profit after taxation						110,024
Depreciation for the year	7,307	1,125	8,432	3,019		11,451
Unallocated depreciation						2,594
Total depreciation						14,045
Segment assets	100,490	10,333	110,823	109,817		220,640
Unallocated assets						154,442
Total assets						375,082
Segment liabilities	25,761	760	26,521	28,727		55,248
Unallocated liabilities						165,472
Total liabilities						220,720
Capital expenditure incurred during the year	37,944	3,848	41,792	3,246		45,038

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Business segments (continued)

	2007					
	Retailing and distribution					
	Mainland China HK$'000	Hong Kong and Macao HK$'000	Sub-total HK$'000	CDM sales HK$'000	Inter-segment elimination HK$'000	Combined HK$'000
Revenue from external customers	34,631	44,035	78,666	260,814	—	339,480
Inter-segment revenue	—	—	—	20,897	(20,897)	—
Total	34,631	44,035	78,666	281,711	(20,897)	339,480
Segment result	1,668	4,117	5,785	109,782		115,567
Unallocated operating income and expenses						(31,312)
Profit from operations						84,255
Finance costs						(2,779)
Taxation						(7,988)
Profit after taxation						73,488
Depreciation for the year	300	632	932	1,591		2,523
Unallocated depreciation						4,661
Total depreciation						7,184
Segment assets	29,178	7,768	36,946	73,196		110,142
Unallocated assets						118,964
Total assets						229,106
Segment liabilities	7,848	564	8,412	49,178		57,590
Unallocated liabilities						70,869
Total liabilities						128,459
Capital expenditure incurred during the year	5,493	521	6,014	30,469		36,483

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(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

Revenue from external customers

	2008 HK$'000	2007 HK$'000
Hong Kong and Macao	**84,396**	91,366
Mainland China	**291,164**	38,902
Other parts of Asia	**27,576**	34,728
Americas	**76,709**	73,266
Europe	**103,209**	91,162
Africa	**13,685**	10,056
	596,739	339,480

Segment assets

	2008 HK$'000	2007 HK$'000
Hong Kong and Macao	**120,150**	31,072
Mainland China	**100,490**	79,070
	220,640	110,142

Capital expenditures

	2008 HK$'000	2007 HK$'000
Hong Kong and Macao	**7,094**	4,535
Mainland China	**37,944**	31,948
	45,038	36,483

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

	Buildings	Leasehold improvements	Office equipment	Furniture and fixtures	Motor vehicles	Plant and machinery	Subtotal	Interests in leasehold land held for own use under operating leases	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At cost									
At 1 April 2006	9,348	2,044	2,766	1,800	6,077	4,460	26,495	11,738	38,233
Exchange adjustments	145	–	34	28	5	202	414	243	657
Additions	6,843	4,777	3,931	739	3,387	6,527	26,204	10,279	36,483
Disposals	–	(41)	–	–	(1,463)	–	(1,504)	–	(1,504)
At 31 March 2007	16,336	6,780	6,731	2,567	8,006	11,189	51,609	22,260	73,869
At 1 April 2007	16,336	6,780	6,731	2,567	8,006	11,189	51,609	22,260	73,869
Exchange adjustments	657	1,283	389	148	121	1,068	3,666	1,115	4,781
Additions	426	22,895	19,718	638	–	1,361	45,038	–	45,038
Disposals	–	(822)	–	(77)	–	(114)	(1,013)	–	(1,013)
At 31 March 2008	**17,419**	**30,136**	**26,838**	**3,276**	**8,127**	**13,504**	**99,300**	**23,375**	**122,675**
Accumulated amortisation and depreciation:									
At 1 April 2006	5,328	477	917	747	3,203	565	11,237	442	11,679
Exchange adjustments	9	–	14	7	7	48	85	6	91
Charge for the year	1,357	1,300	981	414	1,818	740	6,610	574	7,184
Written back on disposals	–	–	–	–	(943)	–	(943)	–	(943)
At 31 March 2007	6,694	1,777	1,912	1,168	4,085	1,353	16,989	1,022	18,011
At 1 April 2007	6,694	1,777	1,912	1,168	4,085	1,353	16,989	1,022	18,011
Exchange adjustments	72	352	152	50	30	162	818	39	857
Charge for the year	1,330	6,783	2,474	704	1,373	812	13,476	569	14,045
Written back on disposals	–	(374)	–	(34)	–	(27)	(435)	–	(435)
At 31 March 2008	**8,096**	**8,538**	**4,538**	**1,888**	**5,488**	**2,300**	**30,848**	**1,630**	**32,478**
Net book value:									
At 31 March 2008	**9,323**	**21,598**	**22,300**	**1,388**	**2,639**	**11,204**	**68,452**	**21,745**	**90,197**
At 31 March 2007	9,642	5,003	4,819	1,399	3,921	9,836	34,620	21,238	55,858

Notes to the Combined Financial Statements

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13 FIXED ASSETS (continued)

(a) An analysis of net book value of land and buildings is as follows:

	2008 HK$'000	2007 HK$'000
Medium term lease		
— in Hong Kong	**13,237**	14,132
— outside Hong Kong	**17,831**	16,748
	31,068	30,880

In connection with the listing of the Company's shares on the Stock Exchange (Note 1(a)), the Group has carried out a valuation on all of its land and building as at 31 March 2008. The valuation was carried out by Jones Lang LaSalle Sallmanns Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. According to the valuation report, the valuation of the Group's land and building based on market value as at 31 March 2008 amounted to HK$65,700,000. The revaluation surplus of HK$34,632,000 has not been recognised in these combined financial statements.

At 31 March 2008 and 2007, the general banking facilities of the Group were secured by a pledge of the Group's land and buildings (see note 20).

During the years ended 31 March 2008 and 2007, additions to motor vehicles of the Group financed by new finance leases were HK$nil and HK$1,515,000 respectively. At 31 March 2008 the net book value of motor vehicles held under finance leases of the Group was HK$909,000 (2007: HK$1,212,000).

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

14 INTANGIBLE ASSETS

Intangible assets represent the registration cost of trademarks used in manufacture and sale of the Group's products. The trademarks are considered to have indefinite useful lives and are not amortised. The movements in the registration cost are as follows:

	2008	2007
	HK$'000	HK$'000
At 1 April	**592**	—
Registration cost	**1**	592
At 31 March	**593**	592

Impairment test for trademark with indefinite useful economic life

The trademarks service the retail operations which are separately identifiable.

The recoverable amount of the trademarks has been determined based on value-in-use calculations. The calculation uses cash flow projections based on a five-year period financial budget approved by management. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Key assumptions used for value-in-use calculation:

— Growth rate of turnover	60%
— Gross profit	65%
— Discount rate	20%

Management determined the growth rate and gross contribution rate based on the past performance and its expectations for market development. The discount rate used is the weighted average cost of debt and capital of the Group.

Notes to the Combined Financial Statements

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15 INVENTORIES

(a) Inventories in the combined balance sheet comprise:

	2008	2007
	HK$'000	HK$'000
Raw materials	**13,758**	11,637
Work in progress	**14,416**	9,893
Finished goods	**28,317**	6,419
	56,491	27,949

None of the inventories as at 31 March 2008 and 2007 were carried at net realisable value.

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

	2008	2007
	HK$'000	HK$'000
Carrying amount of inventories sold	**220,313**	147,784

16 TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	HK$'000
Trade debtors	**67,985**	31,187
Less: Allowance for doubtful debts (note 16(b))	**(591)**	(1,063)
	67,394	30,124
Deposits, prepayments and other receivables	**30,378**	14,939
Amounts due from related parties (note 26(c))	**155**	155
Amount due from directors (note 17)	**55,373**	70,506
	153,300	115,724

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

All of the trade and other receivables including amounts due from related parties are expected to be recovered within one year.

Amounts due from related parties at 31 March 2007 are unsecured, interest-free and repayable on demand. Amounts due from related parties as at 31 March 2008 are unsecured and interest-free. The balances have been subsequently settled in April 2008.

(a) Ageing analysis

Included in trade and other receivables of the Group are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date.

	2008	2007
	HK$'000	HK$'000
Within 3 months	**65,552**	21,001
Over 3 months but less than 6 months	**1,842**	7,259
Over 6 months but less than 1 year	**—**	1,841
Over 1 year	**—**	23
	67,394	30,124

The Group's credit policy is set out in note 24(a).

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade debtors

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

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

	2008 **HK$'000**	2007 HK$'000
Balance brought forward	**1,063**	853
Impairment loss recognised	**1,021**	210
Uncollectible amounts written off	**(1,493)**	—
Balance carried forward	**591**	1,063

At 31 March 2008, the Group fully provided specific allowances for doubtful debts for trade debtors which were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the prospect of recovery of the receivables was remote. The Group does not hold any collateral over these balances.

(c) The ageing analysis of trade debtors that are past due as at the balance sheet date but not impaired are as follows:

	2008 **HK$'000**	2007 HK$'000
Less than 1 month past due	**6,612**	6,366
1 to 3 months past due	**9,047**	932
3 to 6 months past due	**—**	1,840
6 to 12 months past due	**—**	23
	15,659	9,161

Notes to the Combined Financial Statements
(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

(c) The ageing analysis of trade debtors that are past due as at the balance sheet date but not impaired are as follows: (continued)

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

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

17 AMOUNTS DUE FROM/(TO) DIRECTORS

Amounts due from/(to) directors of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Tse Chiu Kwan	Xie Hai Hui
Terms of the loan		
— duration and repayment terms	Repayable on demand	Repayable on demand
— interest rate	None	None
— security	None	None
Balance of the loan		
— at 1 April 2006	HK$38,607,000	HK$(240,000)
— at 31 March 2007 and 1 April 2007	HK$70,506,000	HK$(2,301,000)
— at 31 March 2008	HK$55,373,000	HK$—
Maximum balance outstanding during the year ended		
— 31 March 2007	HK$86,506,000	N/A
— 31 March 2008	HK$70,506,000	N/A

There was no impairment loss provided on the principal amount of these advances at 31 March 2008 (2007: HK$nil).

The outstanding balances have been subsequently settled in April 2008.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

18 CASH AND CASH EQUIVALENTS

	2008 HK$'000	2007 HK$'000
Cash and cash equivalents in the combined balance sheet	**59,356**	24,032
Bank overdrafts (note 20)	**(18,522)**	(11,756)
Cash and cash equivalents in the combined cash flow statement	**40,834**	12,276

Included in the cash and cash equivalents in the combined balance sheet of the Group were amounts denominated in Renminbi of approximately RMB20,770,000 (2007: RMB4,165,000). Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restriction imposed by the PRC government.

19 TRADE AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade creditors	**7,069**	8,755
Bills payable	**6,486**	1,042
Receipts in advance	**10,542**	7,692
VAT payable	**5,678**	3,299
Accrued charges and other payables	**25,473**	20,815
Amounts due to related parties (note 26(c))	**8,244**	8,299
Amounts due to directors (note 17)	**—**	2,301
	63,492	52,203

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

Amounts due to related parties are unsecured, interest free and repayable on demand. The outstanding balances of amounts due to related parties and amounts due to directors have been subsequently settled in April 2008.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

19 TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Due within 3 months or on demand	**13,269**	9,586
Due after 3 months but within 6 months	**—**	211
Due after 6 months but within 1 year	**286**	—
	13,555	9,797

20 BANK LOANS AND OVERDRAFTS

At 31 March 2008, all bank loans and overdrafts of the Group were denominated in Hong Kong dollars or United States dollars, which carried interest at the prime rate minus margin or HIBOR plus margin. Interest rates charged for the year ended 31 March 2008 range from 2.60% to 7.75% (2007: 3.40% to 7.75%) and the bank loans and overdrafts were repayable as follows:

	2008	2007
	HK$'000	HK$'000
Within 1 year or on demand	**114,142**	27,376
After 1 year but within 2 years	**5,541**	5,620
After 2 years but within 5 years	**11,249**	13,685
After 5 years	**9,637**	12,741
	26,427	32,046
	140,569	59,422

At 31 March 2008, the bank loans and overdrafts were secured as follows:

	2008	2007
	HK$'000	HK$'000
Secured bank overdrafts (note 18)	**18,522**	11,756
Secured bank loans	**122,047**	47,666
	140,569	59,422

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

20 BANK LOANS AND OVERDRAFTS (continued)

At 31 March 2008, the banking facilities of the Group were secured by mortgages over the land and buildings with an aggregate carrying value of HK$13,237,000 (2007: HK$14,175,000), mortgages over Tse Chiu Kwan's personal quarters, cross corporate guarantees given by the Group and Gain Win Holdings Limited, a company owned by Tse Chiu Kwan and Yip Ying Kam and personal guarantees given by the directors of the Company, Tse Chiu Kwan and Yip Ying Kam. At the balance sheet date, banking facilities available to the Group amounted to HK$182,500,000 (2007: HK$96,500,000), which were utilised by the Group to the extent of HK$147,054,000 (2007: HK$57,864,000).

Subsequent to the year ended 31 March 2008, the guarantees given by related companies, the director's personal quarters used to secure the Group's banking facilities and the personal guarantees given by the directors have been released on June 2008.

21 OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under finance leases repayable as follows:

	2008		2007	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**345**	**371**	321	371
After 1 year but within 2 years	**181**	**184**	345	371
After 2 years but within 5 years	**—**	**—**	181	184
	181	**184**	526	555
	526	**555**	847	926
Less: total future interest expense		**(29)**		(79)
Present value of lease obligations		**526**		847

Obligations under finance leases are recorded at their value of future cash flows, discounted at market interest rates for similar financing arrangements.

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22 INCOME TAX IN THE COMBINED BALANCE SHEET

(a) Current taxation in the combined balance sheet represents:

	2008 HK$'000	2007 HK$'000
Provision for the year		
— Hong Kong Profits Tax	1,945	4,563
— PRC enterprise income tax	17,114	4,240
Tax paid	(10,780)	(729)
	8,279	8,074
Balance of provision relating to prior years	6,118	5,229
Net tax payable	14,397	13,303
Representing:		
Tax recoverable	(721)	(2,000)
Tax payable	15,118	15,303
	14,397	13,303

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

22 INCOME TAX IN THE COMBINED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

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

	Unutilised tax losses HK$'000	Depreciation allowances in excess of the related depreciation HK$'000	Unrealised losses on inventories HK$'000	Impairment losses on trade and other receivables HK$'000	Total HK$'000
Deferred tax arising from:					
At 1 April 2006	—	148	146	(116)	178
Charged/(credited) to profit or loss	(1,439)	154	470	—	(815)
At 31 March 2007	(1,439)	302	616	(116)	(637)
At 1 April 2007	(1,439)	302	616	(116)	(637)
Charged/(credited) to profit or loss	(2,716)	(39)	—	113	(2,642)
At 31 March 2008	**(4,155)**	**263**	**616**	**(3)**	**(3,279)**

	2008 HK$'000	2007 HK$'000
Representing:		
Net deferred tax assets	**(4,294)**	(1,321)
Net deferred tax liabilities	**1,015**	684
	(3,279)	(637)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,657,000 (2007: HK$1,918,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

Notes to the Combined Financial Statements

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22 INCOME TAX IN THE COMBINED BALANCE SHEET (continued)

(d) Deferred tax liabilities not recognised

At 31 March 2008, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$12,534,000 (2007: $nil). Deferred tax liabilities of $627,000 (2007: $nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

23 CAPITAL AND RESERVES

(a) Share capital

Share capital in the combined balance sheet as at 31 March 2008 and 2007 represented the aggregate amount of the Company's Controlling Shareholders' paid up capital of the companies comprising the Group.

As of the date of incorporation, the initial authorised share capital of the Company was HK$100,000 divided into 10,000,000 shares of HK$0.01 each. On 14 June 2007, 1,000 nil-paid shares of the Company, each of HK$0.01 ranking pari passu in all respects, were allotted and issued to the Controlling Shareholders. On 16 July 2007, every 10 shares of HK$0.01 each in our share capital were consolidated into 1 share of HK$0.10. Following the consolidation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each and 100 nil-paid shares were in issue. Such 100 nil-paid shares were subsequently paid up pursuant to the Reorganization as detailed in note 1(b).

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

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

On 16 May 2008, a total number of 250,000,000 shares were issued to the public at HK$2.22 per share for cash totalling approximately HK$555,000,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of HK$71,700,000, was debited to the share premium account of the Company.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

23 CAPITAL AND RESERVES (continued)

(a) Share capital (continued)

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.

(b) Nature and purpose of reserves

(i) Translation reserve

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

(ii) PRC statutory reserves

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

— *General reserve fund*

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

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

— *Enterprise expansion fund*

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

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

Notes to the Combined Financial Statements

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23 CAPITAL AND RESERVES (continued)

(b) Nature and purpose of reserves (continued)

(iii) Legal reserve

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

(c) Distributable reserves

On the basis set out in note 1(c), the aggregate amount of distributable reserves at 31 March 2008 of the companies comprising the Group is HK$123,002,000 (2007: HK$93,801,000).

24 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

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

The Group has a certain concentration of credit risk as 7% (2007: 4%) of the total trade and other receivables from third parties as at 31 March 2008 was due from the Group's largest customer and 21% (2007: 15%) of the trade and other receivables from third parties as at 31 March 2008 was due from the five largest customers.

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

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24 FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

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

(b) Liquidity risk

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

	2008				
	Carrying amount HK$'000	**One year or less HK$'000**	**1–2 years HK$'000**	**2–5 years HK$'000**	**More than 5 years HK$'000**
Creditors and accrued charges	**32,245**	**32,245**	**—**	**—**	**—**
Bills payable	**6,486**	**6,486**	**—**	**—**	**—**
Bank overdrafts	**18,522**	**18,522**	**—**	**—**	**—**
Bank loans	**140,569**	**114,142**	**5,541**	**11,249**	**9,637**
Finance lease liabilities	**526**	**345**	**181**	**—**	**—**
	198,348	**171,740**	**5,722**	**11,249**	**9,637**

	2007				
	Carrying amount HK$'000	One year or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	More than 5 years HK$'000
Creditors and accrued charges	29,570	29,570	—	—	—
Bills payable	1,042	1,042	—	—	—
Bank overdrafts	11,756	11,756	—	—	—
Bank loans	59,422	27,376	5,620	13,685	12,741
Finance lease liabilities	847	321	345	181	—
	102,637	70,065	5,965	13,866	12,741

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(c) Business risk

The Group's primary business is the design, CDM and sales of fashion accessories. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that find favour in the market place, maintain a larger retail network and manufacture sufficient quantities to meet fashionable sales.

The Group is also exposed to financial risks arising from the change in cost and supply of key raw materials, which is determinable by constantly changing market forces of supply and demand. The Group has little or no control over these conditions and factors. The Group manages its exposure to fluctuations in the price of key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

In view of the above, the Group may experience significant fluctuations in its future financial results.

(d) Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 20.

Sensitivity analysis

A change of 100 basis points in interest rate would have increased or decreased profit before taxation by HKD as follows:

	2008	2007
	HK$'000	HK$'000
Profit before taxation decrease as 100 basis points increase	**1,405**	594

A 100 basis points decrease would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

Effective interest rates and repricing analysis

In respect of the Group's income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2008					
	Effective interest rate	Total HK$'000	One year or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	More than 5 years HK$'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	0.59%	59,356	59,356	–	–	–
Bank overdrafts	7.62%	(18,522)	(18,522)	–	–	–
Bank loans	5.42%	(122,047)	(95,620)	(5,541)	(11,249)	(9,637)
		(81,213)	(54,786)	(5,541)	(11,249)	(9,637)
Maturity dates for liabilities which do not reprice before maturity						
Finance lease liabilities	3.59%	(526)	(345)	(181)	–	–

Notes to the Combined Financial Statements
(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

	2007					
	Effective interest rate	Total HK$'000	One year or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	More than 5 years HK$'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	1.13%	24,032	24,032	—	—	—
Bank overdrafts	6.85%	(11,756)	(11,756)	—	—	—
Bank loans	5.10%	(47,666)	(15,620)	(5,620)	(13,685)	(12,741)
		(35,390)	(3,344)	(5,620)	(13,685)	(12,741)
Maturity dates for liabilities which do not reprice before maturity						
Finance lease liabilities	3.59%	(847)	(321)	(345)	(181)	—

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(e) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars.

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

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

	2008	2007
	US$'000	US$'000
Cash and cash equivalents	**1,590**	699
Trade and other receivables	**2,784**	1,570
Trade and other payables	**(247)**	(1,148)
Gross balance sheet exposure	**4,127**	1,121

The following significant exchange rates applied during the year:

	Average rate		**Reporting date mid-spot rate**	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
US$1	**7.80**	7.79	**7.81**	7.81

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(e) Foreign currency risk (continued)

Sensitivity analysis

An 1 percent strengthening of the HK$ against the US$ at 31 March 2008 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis throughout the year.

	2008 HK$'000	2007 HK$'000
Exchange loss	322	88

(f) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair value as at 31 March 2008 except for amounts due from/to related companies and directors which are interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values of such balances.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments set out in note 24(f) above.

(i) Interest-bearing loans and borrowings and finance leases liabilities

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

(ii) Other financial assets and liabilities

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(h) Capital management

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits of other stakeholder, and to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as bank loans and overdrafts plus obligations under finance leases (as shown in the combined balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity, and includes the amounts due to related parties. The debt-to-adjusted capital ratio as at 31 March 2008 was as follows:

	2008 **HK$'000**	2007 HK$'000
Bank loans and overdrafts	**140,569**	59,422
Obligations under finance leases	**526**	847
Less: Cash and cash equivalents in the combined balance sheet	**(59,356)**	(24,032)
Net debt	**81,739**	36,237
Adjusted capital	**154,362**	100,647
Debt-to-adjusted capital ratio	**53%**	36%

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

25 COMMITMENTS

(a) Capital commitments outstanding at 31 March 2008 not provided for in the financial statements were as follows:

	2008	2007
	HK$'000	HK$'000
Contracted for in respect of leasehold improvements	**405**	13
Contracted for in respect of office equipment	**263**	—
	668	13

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008		2007	
	Properties	**Billboards**	Properties	Billboards
	HK$'000	**HK$'000**	HK$'000	HK$'000
Within 1 year	**38,954**	**2,268**	12,527	2,013
After 1 year but within 5 years	**34,129**	**—**	4,898	—
	73,083	**2,268**	17,425	2,013

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Relationship

Name of related parties	Relationships
Artini Jewelry Mfg. Limited ("Artini Jewelry Mfg.")	A company 90% owned by Mr Tse Chiu Kwan and 10% owned by Ms Yip Ying Kam
Gain Win Holdings Limited ("Gain Win")	A company 50% owned by Mr Tse Chiu Kwan and 50% owned by Ms Yip Ying Kam
Guangdong Artini Enterprise Co., Limited ("Guangdong Artini") (note)	Effectively 55% owned by Mr Xie Hai Hui, director of the company and 45% owned by Mr Lam Siu Wah, brother in law of Mr Tse Chiu Kwan
Haifeng Artplus Mfy Limited ("Haifeng Artplus") (note)	Effectively 40% owned by Mr Xie Hai Hui, director of the company and 60% owned by Mr Lam Siu Wah

Note: The English translations of the company names are for reference only. The official names of these companies are in Chinese.

(b) Significant related party transactions

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

	Note	**2008**	2007
		HK$'000	HK$'000
Purchase of fixed assets from:			
— Guangdong Artini	(i)	**–**	8,548
— Haifeng Artplus	(i)	**–**	6,791
Rental paid to:			
— Guangdong Artini	(ii)	**–**	45
— Gain Win	(iii)	**600**	1,200
— A director	(iv)	**–**	817

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions (continued)

Notes:

(i) Certain property, plant and land use rights owned by Guangdong Artini and Haifeng Artplus with an aggregate carrying value totalling HK$8,548,000 and HK$6,791,000 respectively were transferred to the Group on 15 August 2006 and 19 July 2006 respectively at their historical net book value.

(ii) Rental expenses paid to Guangdong Artini were determined based on the relevant agreements which expired on 28 June 2006.

(iii) Rental expenses paid to Gain Win for the directors' quarters. The rental was determined based on the relevant agreements and was mutually agreed by both parties.

(iv) Rental expenses paid to Mr. Tse Chiu Kwan, a director of the company, were determined based on the relevant agreements.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

(c) Balances with related parties

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

	2008 **HK$'000**	2007 HK$'000
Amount due from:		
— Artini Jewelry	**155**	155
— Directors	**55,373**	70,506
Amount due to:		
— Artini Jewelry	**8,244**	8,299
— Directors	**—**	2,301

The balances with related parties are unsecured, interest free and repayable on demand. The outstanding balances with related parties including amounts due from directors as at 31 March 2008 was subsequently settled in April 2008.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel remuneration

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

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**7,892**	8,661
Post-employment benefits	**58**	72
	7,950	8,733

27 CONTINGENT LIABILITIES IN RESPECT OF FINANCIAL GUARANTEES ISSUED

At the balance sheet date, certain of the group companies and Gain Win were entities covered by a cross guarantee arrangement in respect of certain banking facilities granted to the Group, which remain in force so long as the Group had drawn down under the banking facilities. Under the guarantee, Gain Win was the mortgagor and the group companies that were parties to the guarantee were borrowers under the arrangement. Gain Win and the group companies that were parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which was the beneficiary of the guarantee. The cross guarantee arrangement has been subsequently released on April 2008.

28 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the combined financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the combined financial statements.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

28 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

(c) Inventory provision

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in customers' performance, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

28 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Determining whether an arrangement contains a lease

The Group entered into concession agreements with relevant department stores or shopping malls for those sales counters or sales areas operated or occupied. The Group employs its own salesman responsible for the daily operations of its concessions. The Group pays a fixed monthly amount over the terms of arrangement, plus a variable charge based on the gross turnover of the monthly sales made by such concession.

Although the arrangement is not in the legal form of lease, on the initial application of HK(IFRIC) 4 "Determining whether an arrangement contains a lease", the Group concludes that the arrangement contains a lease. It is unlikely that any parties other than the Group will receive more than an insignificant amount of the output and the Group pays a fixed monthly amount over the terms of arrangement, in addition to a charge per unit sold.

The lease was classified as an operating lease and accounted for in accordance with the accounting policy set out in note 2(f)(iii).

29 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 March 2008 to be Fully Gain Worldwide Limited, which is incorporated in the BVI.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

30 SUBSEQUENT EVENTS

(i) Group Reorganisation

The Company was incorporated in the Bermuda on 30 May 2007. The subsidiaries now comprising the Group underwent and completed a reorganisation for the listing of the Company's shares on the Stock Exchange on 16 May 2008. As a result of the Reorganisation, the Company became the holding company of the Group (note 1(b)).

(ii) Authorised share capital

Pursuant to the resolutions in writing passed by the equity shareholders of the Company on 23 April 2008, the equity shareholders approved the increase of the authorised share capital of the Company to 3,000,000,000 shares with a par value of HK$0.1 each.

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

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

On 16 May 2008, a total number of 250,000,000 shares were issued to the public at HK$2.22 per share for cash totalling approximately HK$555,000,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of HK$71,700,000, was debited to the share premium account of the Company.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

30 SUBSEQUENT EVENTS (continued)

(iii) Listing of the Company's shares

On 16 May 2008, the Company was successfully listed on the Stock Exchange following the completion of its global offering of 280,000,000 shares to the investors. The net proceeds from the Company's issue of shares (after deducting underwriting commission and related expenses) amounted to approximately HK$483.3 million, which are intended to be applied in accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

(iv) Share option scheme

Pursuant to a written resolution of the shareholders of the company passed on 23 April 2008, the company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as set out in the Prospectus.

As at 2 May 2008, the board resolved to issue total 10,000,000 share options to certain senior management personnel pursuant to the Company's Pre-IPO Share Option Scheme.

Report of Independent Auditor on the Company's Financial Statements

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

We have audited the financial statements of Artini China Co. Ltd (the "Company") set out on pages 122 to 138, which comprise the balance sheet as at 31 March 2008, and the income statement, the statement of changes in equity and the cash flow statement for the period from 30 May 2007 (date of incorporation) to 31 March 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Report of Independent Auditor on the Company's Financial Statements

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2008 and of its result and cash flows for the period from 30 May 2007 (date of incorporation) to 31 March 2008 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 July 2008

Company's Income Statement

for the period from 30 May 2007 (date of incorporation) to 31 March 2008
(Expressed in Hong Kong dollars)

	Note	$'000
Turnover		–
Cost of sales		–
Gross profit		–
Administrative expenses		(1,505)
Loss before taxation		(1,505)
Income tax	3	–
Loss for the period		(1,505)

The notes on pages 127 to 138 form part of these financial statements.

Company's Balance Sheet

as at 31 March 2008

(Expressed in Hong Kong dollars)

	Note	$'000
Current assets		
Prepayments	5	9,036
Amount due from a director	6	10
		9,046
Current liabilities		
Accrued charges and other payables	8	1,373
Amounts due to related companies	7	9,168
		10,541
Net current liabilities		(1,495)
NET LIABILITIES		(1,495)
CAPITAL AND RESERVES		
Share capital	9	10
Reserves		(1,505)
TOTAL EQUITY		(1,495)

Approved and authorised for issue by the board of directors on 21 July 2008

Tse Chiu Kwan
Director

Yip Ying Kam
Director

The notes on pages 127 to 138 form part of these financial statements.

Company's Statement of Changes in Equity

for the period from 30 May 2007 (date of incorporation) to 31 March 2008

(Expressed in Hong Kong dollars)

	Share capital $'000	Accumulated loss $'000	Total equity $'000
As at 30 May 2007 (date of incorporation)	—	—	—
Issue of shares	10	—	10
Net loss for the period	—	(1,505)	(1,505)
As at 31 March 2008	10	(1,505)	(1,495)

The notes on pages 127 to 138 form part of these financial statements.

Company's Cash Flow Statement

for the period from 30 May 2007 (date of incorporation) to 31 March 2008

(Expressed in Hong Kong dollars)

	Note	$'000
Operating activities		
Loss before taxation		(1,505)
Operating loss before changes in working capital		(1,505)
Increase in prepayments		(9,036)
Increase in accrued charges and other payables		1,373
Increase in amounts due to related companies		9,168
Net cash generated from operating activities		—
Net increase in cash and cash equivalents		—
Cash and cash equivalents at the beginning of period		—
Cash and cash equivalents at the end of period		—

Company's Cash Flow Statement

for the period from 30 May 2007 (date of incorporation) to 31 March 2008

(Expressed in Hong Kong dollars)

MAJOR NON-CASH TRANSACTIONS:

As of the date of incorporation, the initial authorised share capital of the Company was HK$100,000 divided into 10,000,000 shares of HK$0.01 each. On 14 June 2007, 900 nil-paid shares and 100 nil-paid shares of the Company, each of HK$0.01 ranking pari passu in all respects, were allotted and issued to Mr. Tse and Ms. Yip (the "Controlling Shareholders") respectively. On 16 July 2007, every 10 shares of HK$0.01 each in our share capital were consolidated into 1 share of HK$0.10. Following the consolidation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each and 100 nil-paid shares were in issue. Such 100 nil-paid shares were subsequently paid up pursuant to the reorganization as detailed in Note 1(b).

The notes on pages 127 to 138 form part of these financial statements.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND

(a) General information

The Company was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Companies Act 1981 (as amended) of Bermuda. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008. The addresses of the registered office and principal place of business of the Company are disclosed in page 2 of the annual report.

These financial statements have been approved for issue by the Board of Directors on 21 July 2008.

(b) Reorganisation

To rationalise the corporate structure for the public listing of the Company's shares on the Stock Exchange, the Company underwent a reorganisation (the "Reorganisation") to acquire from the Controlling Shareholders various companies as set out in Note 10, which are principally engaged in the design, manufacturing, retailing and distribution and concurrent design manufacturing of fashion accessories. The Reorganisation of the Company and the subsidiaries now comprising the group (the "Group") was complete on 23 April 2008 and the Company became the holding company of the subsidiaries now comprising the Group. The Company and the subsidiaries now comprising the Group are under common control of the Controlling Shareholders.

Details of the Reorganisation are set out in the prospectus dated 2 May 2008 (the "Prospectus") issued by the Company.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions hat effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The directors consider that there are no critical accounting estimates or area of judgement required in the preparation of these financial statements.

(c) Basis of measurement

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

These financial statements are prepared on the historical cost basis.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Trade and other receivables

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

Trade and other receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

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

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

(e) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost, except where the payables are interest-free loans from related parties without any fixed repayment terms of the effect of discounting would be immaterial, in which case they are stated at cost.

(f) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income tax (continued)

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

(g) Related parties

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

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

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

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

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

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

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

3 INCOME TAX IN THE INCOME STATEMENT

(a) Taxation in the income statement represents:

No provision has been made for Hong Kong Profits Tax as the Company did not generate any income which was subject to Hong Kong Profits Tax.

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

	$
Loss before taxation	(1,505)
Notional tax on loss before taxation	(263)
Tax effect of non-deductible expenses	263
Actual tax expense	–

4 DIRECTORS' REMUNERATION

No director received any emolument from the Company during the period from 30 May 2007 (date of incorporation) to 31 March 2008.

5 PREPAYMENTS

	$'000
Prepayments for listing expenses	9,036
	9,036

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

6 AMOUNT DUE FROM A DIRECTOR

Amount due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Mr Tse Chiu Kwan
Position/relationship	Director
Terms of the loan	
—duration and repayment terms	Repayable on demand
—interest rate	Free
—security	None
Maximum balance outstanding	
—during 2008	$100,000

7 AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

8 ACCRUED CHARGES AND OTHER PAYABLES

	$'000
Accrued charges and other payables	1,373
	1,373

All accrued charges and other payables are expected to be settled within one year.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

9 CAPITAL AND RESERVES

Share capital

Authorised and issued share capital

	Number of shares '000	Amount $'000
Authorised:		
Ordinary shares of HK$0.1 each (note)	1,000,000	100,000
Ordinary shares issued and nil-paid:		
At 30 May 2007 (date of incorporation) and 31 March 2008 (note)	100	10

Note: Refer to major non-cash transaction of the Cash Flow Statement on page 125 for details of the movements of share capital.

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS

(i) Group reorganisation

The subsidiaries now comprising the Group underwent and completed a reorganisation for the listing of the Company's shares on the Stock Exchange on 16 May 2008. As a result of the reorganisation, the Company became the holding company of the Group.

Details of the subsidiaries are as follows:

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Alfreda International Company Limited	Macao 22 March 2007	—	100	MOP50,000	Retailing of fashion accessories
Artini International Company Limited	Hong Kong 16 July 2003	—	100	HK$300,000	Retailing of fashion accessories
Artini Sales Company Limited	Hong Kong 9 June 1992	—	100	HK$10,000	Trading of fashion accessories
Artist Empire Gifts & Premium Mfy. Limited	Hong Kong 11 February 2004	—	100	HK$10,000	Trading of fashion accessories
Artist Empire International Group Company Limited	Hong Kong 10 September 1996	—	100	HK$10,000	Investment holding
Artist Empire Jewellery Enterprise Company Limited	Hong Kong 2 April 2005	—	100	HK$10,000	Trading of fashion accessories and related raw materials
Artist Empire Jewellery Mfy. Limited	Hong Kong 8 September 2006	—	100	HK$100	Trading of fashion accessories
Artist Empire Silver Jewellery Mfy. Limited	Hong Kong 7 January 2004	—	100	HK$10,000	Trading of fashion accessories

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Artist Empire (Hai Feng) Jewellery Mfy. Limited (note)	PRC 28 March 2002	—	100	HK$52,200,000	Manufacturing and sale of accessories fashion
Artist Star International Development Limited	British Virgin Islands ("BVI") 7 December 2004	100	—	US$1,000	Investment holding
Artplus Investment Limited	Hong Kong 9 June 1992	—	100	HK$10,000	Trading of fashion accessories
Arts Empire Macao Commercial Offshore Limited	Macao 14 January 2005	—	100	MOP200,000	Trading of fashion accessories and related raw materials
Bo-Wealth (Shenzhen) Trading Co. Ltd. (note)	PRC 19 October 2006	—	100	HK$1,500,000	Trading of fashion accessories
Elili Int'l Company Limited	Hong Kong 19 July 2006	—	100	HK$100	Trading of fashion accessories
Gain Trade Enterprise Limited	Hong Kong 15 October 2004	—	100	HK$100	Investment holding
Gentleman Investments Limited	Hong Kong 20 January 1993	—	100	HK$10,000	Investment holding

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Ho Easy Limited	BVI 3 May 2004	—	100	US$1	Investment holding
Instar International Company Limited	BVI 25 November 2004	—	100	US$100	Investment holding
JCM Holdings Limited	BVI 7 December 2004	—	100	US$500	Investment holding
Keon Company Limited	Hong Kong 27 April 2005	—	100	HK$10,000	Provision of logistics services
King Erich International Development Limited	BVI 7 December 2004	—	100	US$300	Investment holding
Q'ggle Company Limited	Hong Kong 19 July 2006	—	100	HK$100	Retailing of fashion accessories
Riccardo International Trading Limited	BVI 7 December 2004	—	100	US$700	Investment holding
Shop Front Trading Limited	BVI 20 December 2000	—	100	US$100	Provision of product design services

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

Name of company	Place and date of incorporation/ establishment	Percentage of equity attributable to the company		Issued and fully paid-up/registered capital	Principal activities
		Direct	Indirect		
Shenzhen Artini Fashion Accessories Co., Ltd. (note)	PRC 6 June 2006	—	100	HK$20,000,000	Retailing of fashion accessories
TCK Company Limited	BVI 25 November 2004	—	100	US$100	Trading of fashion accessories and related raw materials

Note: These entities are wholly owned foreign enterprises established in the PRC. The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(ii) Authorised share capital

Pursuant to the resolutions in writing passed by the equity holder of the Company on 23 April 2008, the equity holder approved the increase of the authorised share capital of the Company to 3,000,000,000 shares with a par value of HK$0.1 each.

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

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

On 16 May 2008, a total number of 250,000,000 shares were issued to the public at HK$2.22 per share for cash totalling approximately HK$555,000,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of HK$71,700,000, was debited to the share premium account of the Company.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(iii) Listing of the Company's shares

On 16 May 2008, the Company was successfully listed on the Stock Exchange following the completion of its global offering of 280,000,000 shares to the investors.

(iv) Share option scheme

Pursuant to a written resolution of the shareholders of the Company passed on 23 April 2008, the company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as set out in the Prospectus.

As at 2 May 2008, the board resolved to issue total 10,000,000 share options to certain senior management personnel pursuant to the Company's Pre-IPO Share Option Scheme.