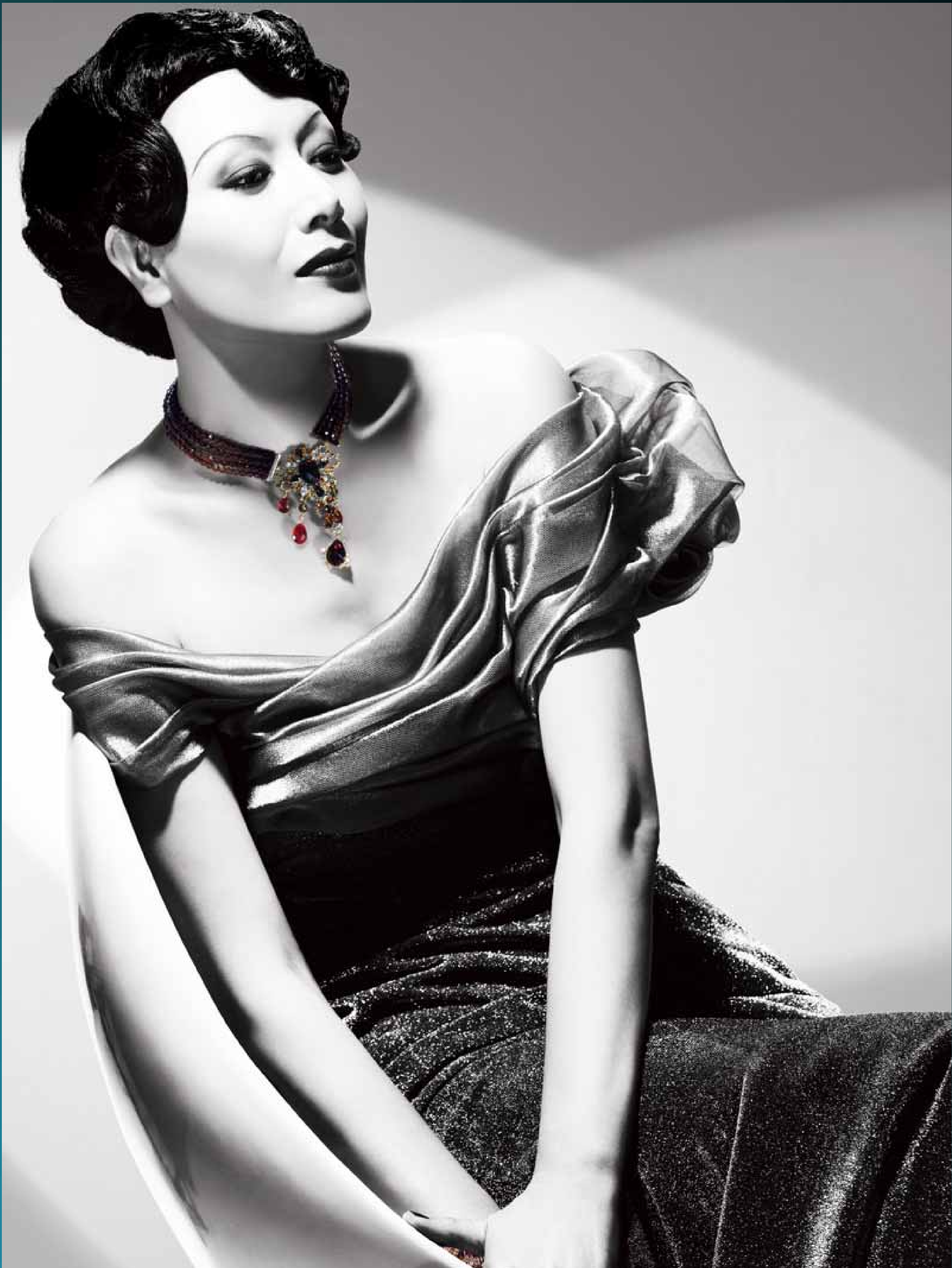
雅天妮中國有限公司
ARTINI CHINA CO. LTD.

(Incorporated in Bermuda with limited liability)
Stock Code: 789

Annual Report 2008-09

ARTINI
雅天妮



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tse Chiu Kwan (Chairman)
Mr. Xie Hai Hui (Chief Operation Officer)
Ms. Ho Pui Yin, Jenny
Mr. Lin Shao Hua

Non-executive Director

Ms. Yip Ying Kam (Vice Chairman)

Independent Non-executive Directors

Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence
Mr. Fan William Chung Yue

AUDIT COMMITTEE

Mr. Lau Fai Lawrence (Chairman)
Ms. Chan Man Tuen, Irene
Mr. Fan William Chung Yue

REMUNERATION COMMITTEE

Mr. Fan William Chung Yue (Chairman)
Mr. Tse Chiu Kwan
Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence

NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (Chairman)
Mr. Tse Chiu Kwan
Ms. Chan Man Tuen, Irene
Mr. Fan William Chung Yue

INVESTMENT COMMITTEE

Mr. Tse Chiu Kwan (Chairman)
Ms. Ho Pui Yin, Jenny
Mr. Lin Shao Hua

COMPANY SECRETARY

Mr. Lo Wah Wai, HKICPA, AICPA

AUTHORISED REPRESENTATIVES

Mr. Tse Chiu Kwan
Ms. Ho Pui Yin, Jenny

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hunghom
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
G/F, 56 Hoi Yuen Road
Kowloon
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central
Hong Kong

Corporate Information (Cont'd)

LEGAL ADVISERS

As to Hong Kong law

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

As to PRC law

Guangdong Guangda Law Firm
27th Floor, Dongshan Plaza
69 Xian Lie Road Central
Guangzhou 510095
PRC

As to Bermuda law

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

As to Macao law

Gonçalves Pereira, Rato, Ling, Vong & Cunha –
Avenida da Amizade, 555-Macao Landmark
Office Tower – Rooms 2301–02
Macao SAR

COMPLIANCE ADVISER

Cazenove Asia Limited
A Standard Chartered group company
25th Floor Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8/F Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRARS

Principal share registrar and transfer office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda

Hong Kong branch share registrar and transfer office

Union Registrars Limited
Rooms 1901–02
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

INVESTOR RELATIONS

Porda International (Finance) PR Group
Units 2009–2018, 20th Floor
Shui On Centre
6–8 Harbour Road
Wanchai, Hong Kong

LISTING EXCHANGE INFORMATION

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

789

COMPANY'S WEBSITE ADDRESS

www.artini-china.com

Corporate Profile

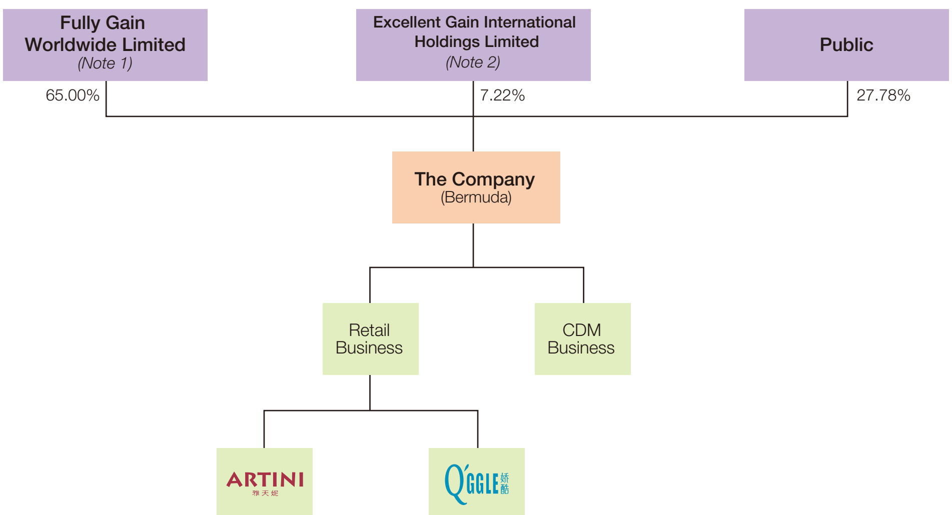
Artini China Co. Ltd. (the "Company" or "Artini") is a leading retail chain operator and manufacturer of fashion accessories and gift and premium items. Started as an export and trading company of fashion accessories 17 years ago, the Company and its subsidiaries (the "Group") have worked hand-in-hand with internationally acclaimed brands from design to delivery, and boasted extensive experience in the fashion accessories industry.

Drawing on its vertically integrated business model together with an international vision and skills gained from Concurrent Design Manufacturing ("CDM") business, the Group's first proprietary brand targeting the high-end consumer segment, Artini, made its stellar debut in Hong Kong in 2003 and entered the People's Republic of China (the "PRC") market in 2006 to widespread acclaim.

Seeing enormous potential in the vibrant PRC market, the Group took the initiative to unveil its second brand – Q'ggle, in 2006, offering a full array of products to a younger generation that looks for style and individuality.

As at 31 March 2009, the Group's retail network comprised over 186 retail points across 40 cities in the PRC, Hong Kong and Macao, with a strong presence in first-tier cities such as Beijing, Shanghai and Shenzhen.

As at the date of this report, the corporate structure of our Group was as follows:



Notes:

1. Fully Gain Worldwide Limited is a company incorporated in the British Virgin Islands and wholly owned by Mr. Tse Chiu Kwan.

2. Excellent Gain International Holdings Limited is a company incorporated in the British Virgin Islands and wholly owned by Ms. Yip Ying Kam.

Five-Year Financial Highlights

(All amounts in HK$ thousands unless otherwise stated)

	For the year ended 31 March				
	2009	2008	2007	2006	2005
Turnover	**564,101**	596,739	339,480	291,739	241,210
Gross profit	**237,608**	376,426	191,696	114,282	86,599
(Loss)/profit from operations	**(137,641)**	130,437	84,255	57,481	45,239
(Loss)/profit for the year	**(140,529)**	110,024	73,488	52,773	41,697
Non-current assets	**121,083**	105,214	59,401	27,300	25,856
Current assets	**393,657**	269,868	169,705	94,587	55,352
Current liabilities	**51,185**	193,097	95,203	52,989	79,002
Net current assets/(liabilities)	**342,472**	76,771	74,502	41,598	(23,650)
Total assets less current liabilities	**463,555**	181,985	133,903	68,898	2,206
Total equity	**461,525**	154,362	100,647	41,288	(32)
Gross profit margin (%)	**42.1**	63.1	56.5	39.2	35.9
Net (loss)/profit margin (%)	**(24.9)**	18.4	21.6	18.1	17.3
Basic and diluted (loss)/earnings per share (HK$)	**(0.145)**	0.147	0.098	0.070	0.056
Return on equity (%)	**(45.6)**	86.3	103.6	255.8	N/A
Return on assets (%)	**(31.6)**	36.4	41.9	52.0	67.8
Debt to equity	**–**	1.1	0.8	1.6	N/A

Chairman's Statement

Mr. Tse Chiu Kwan
Chairman

Dear Shareholders:

On behalf of the Company and the Group, I hereby present the annual report on the consolidated results of the Group for the year ended 31 March 2009 to shareholders.

The successful listing of Artini on 16 May 2008 has strengthened the confidence of the Group. The management team of the Group has always been confident and optimistic at the market and has formulated a series of development strategies. However, in light of the drop of consumer sentiment as a result of the Sichuan earthquake in early May last year and the Beijing Olympic Games and the further shrank of the global operating environment under the global financial tsunami, our management team managed to adjust its marketing strategies flexibly. Firstly, as one of its strategies to control cost and reduce loss, our management team has modified its expansion plan by reducing the number of stores from 256 to 186. In respect of CDM business, the Group will further reduce expenses by reallocating its resources among the factories, including cutting headcounts and negotiating with suppliers to procure raw materials at lower prices. Although China is a fast-growing emerging market, the economies of its first-tier cities suffered while sales of medium to high-end consumer products were weakened. The retail business in the PRC and the international CDM business of the Group were stricken by the general economic downturn. The Group experienced a difficult year in 2008/09 and recorded a loss of HK$140,529,000.

BUSINESS REVIEW

To cope with the challenging environment, Artini, committed to improvement even in adversity, reviewed its business development strategies and direction and implemented a series of enhancement measures last year. In order to improve its long-term competitiveness, the Group proactively reviewed and streamlined its operation structure, strengthened cost control and internal management, developed new product lines and sales channels during the year under review.

Retail Business in the PRC

Being the core business of the Group, the retail business in the PRC is the primary source of revenue and the driving force for future growth of the Group. During the year under review, the brands of the Group, Artini and Q'ggle, had a total numbers of 186 retail stores in 40 cities in the PRC as at 31 March 2009. In order to promote its corporate image, the Group opened its first Artini and Q'ggle flagship stores with an area of 201 and 366 square meters respectively at Sanlitun, Beijing, in January 2009 and established its leading position in the accessories market of the PRC.

Re-adjustment of Store Expansion

For the effective use of resources and flexible development of business network, the Group started to phase out its self-operated stores and replaced them by licensed stores in the year under review so as to reduce the start-up costs of new stores and control operating expenses effectively, as well as to speed up the business development of the Group in order to cope with the market demand. As at 31 March 2009, the Group entered into cooperation agreements with several distributors with extensive retail experience. It is expected that the number of distributors will further increase in the future.

In addition, the Group implemented stringent cost control measures and re-engineered the whole operation procedures ranging from the process of design, manufacture and sales of products to the process of internal management. The Group also negotiated to reduce rental expenses of some high rental stores. Moreover, some of the high rental and loss-making stores were closed during the period under review, by doing this we can further minimise the operational expense. We believe these measures can improve the competitiveness of the Group and provide a solid foundation for future business development.

Expansion of New Product Lines

During the year under review, in addition to fashion accessories business, the Group developed gift and premium items business and introduced new product lines to achieve product diversification. The developing PRC market features substantial demand from enterprises for gift and premium items. The Group endeavours to identify customers who can facilitate the Group in generating higher gross profit to enhance profitability.

In October 2008, the Group obtained the exclusive distribution right of the timepieces of the international brand NBA in China. The products were launched in December 2008 in selected Q'ggle retail stores. The Group intends to attract younger customers by leveraging the brand awareness of NBA. By setting up concessions for NBA timepieces in Q'ggle stores, the brand awareness of Q'ggle will be further enhanced.

Chairman's Statement (Cont'd)

Following the successful acquisition of the exclusive distribution right of NBA timepieces in the PRC, the Group was also selected to be one of the licensed manufacturer and distributor of 2010 Guangzhou Asian Games in November 2008. Series of products have been specially designed for the 2010 Guangzhou Asian Games and will be sold in August 2009. The selection of the Group by the Guangzhou Asian Games Organising Committee as one of the licensed enterprises represents a general recognition of the Group's products in the industry.

Developing New Sales Channels

During the year under review, the Group increased the sales volume of its products by developing new sales channels with lower operation cost, such as direct mailing, online shopping, gift redemption programmes jointly launched with banks and major enterprises and the development of e-commerce. In addition, the Group also cooperated with major enterprises to form strategic alliances. Given the rising rents in the PRC, we believe that the new sales channels can help to decrease operation cost significantly and improve the overall profitability of the Group.

CDM Business

Impacted by the global financial tsunami, CDM orders from the United States of America (the "US") and European markets decreased. Apart from enhancing product offerings and developing gift and premium items business, the Group also expanded the customer base of its CDM business and further developed gift and premium items business in order to reduce the reliance on particular customers. Furthermore, the Group also managed to reduce production cost by proactively negotiating with raw material suppliers for bargain prices to achieve effective cost control.

OUTLOOK

Looking ahead, the Group will strive to consolidate its position as the leading multi-branding operator of fashion accessories and gift and premium items in the PRC to capitalise opportunities in the challenging market. The steady development of the economic environment and the recognition of domestic customers towards reputable brands will be favourable for our business growth. To keep abreast of the market trend, the Group will initiate different strategies to meet the market needs and take advantage of opportunities to further expand the Group's business.

In the coming year, the Group will continue its multi-brand development strategy. In regard to the retail business, apart from developing the business of NBA timepiece products, the Group will continue to seek other potential cooperation and business opportunities with international brands. It will also expand its sales network in second and third-tier cities in the PRC by cooperating with distributors in relation to the licenced stores of the Group. The Group will continue to maintain the brand position and awareness of Artini and Q'ggle. Since Q'ggle is becoming mature in the market, it will be the major driving force for the Group's future development. It is expected that the overall rental expenses of the Group will be maintained at an acceptable level upon the re-adjustment of the rental expenses and the strategic adjustment of its store development plan. Furthermore, the Group will further develop e-commerce and online sales and expand interaction between our brands and that of potential customers through e-commerce platforms, to facilitate sales and extend the Group's business coverage globally to overseas markets.

In regard to its CDM business, the Group will maintain its steady development and continue to provide one-stop services to customers by its vertically integrated business model. The Group will closely cooperate with top global brands in product development and design. We will also capitalise on our core competitive edges to explore new profitable customers.

Chairman's Statement (Cont'd)

Since our design team is one of the core edges of the Group, we will continue to strengthen the design and development capability and launch more fashionable designs and products to cater for market needs.

In addition, the Group will adhere to its stringent operation cost control, strengthen internal management and enhance brand awareness and customer loyalty in order to increase its brand competitiveness.

As the global economy has stabilised and the market of the PRC remains in an initial development stage, there is enormous growth potential for the PRC market. Boasting various competitive edges such as a proactive and experienced management team, strategic operational model and excellent brand position, the Group is optimistic about its business prospect.

APPRECIATION

I would like to express my sincerest gratitude on behalf of the board of directors ("Directors") of the Company ("Board") to our employees for their efforts, and to shareholders, customers, suppliers and partners for their continuing support. The Group is committed to enhancing business growth to reward shareholders for their on-going support.

Tse Chiu Kwan
Chairman

Hong Kong, 17 July 2009


The International
Fashion Accessories
Leader

Management Discussion and Analysis

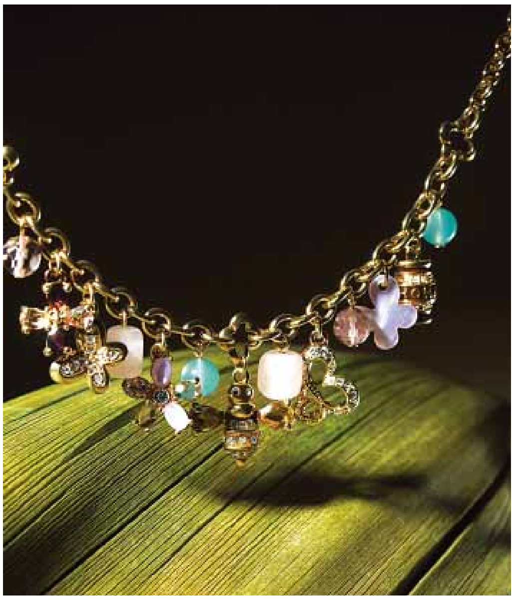
MARKET REVIEW

Fiscal year 2008/09 has been a year of challenges for Artini due to the far-reaching effects of the global financial tsunami and the rapid changes of operating environment in the PRC. It is one of the goals of the Group to maintain a healthy growth. However, the Group experienced the impact of the earthquake in Wenchuan, Sichuan soon after its listing. As a result, the sales of the Group were affected due to weakened consumer sentiment. Furthermore, the overseas markets also shrank as a result of the international financial crisis. Although China, as in a fast-developing economy, was less affected by the global financial tsunami, the impacts of the continuous economic slowdown of the US and Europe were obvious in the PRC market, resulting in unsatisfactory performance of the Group's CDM and retail businesses. Consumer confidence and consumption power, especially on mid to high-end products, were inevitably affected. In light of the rapid changes in global business environment, the management team of the Group flexibly adjusted the business strategies to minimise loss by cutting the target number of new stores from 256 to 186 for this fiscal year and reducing the headcounts and raw material costs. As a result, the pressure on both the Group's PRC retail and CDM businesses was slightly alleviated during the year under review.

The fashion accessories industry in the PRC is highly fragmented. Certain weaker players were driven out of the market as a result of the financial tsunami. On the other hand, niche players with a strong competitive edge solidified their presence and are now in better shape to capture future opportunities. By leveraging our vertically-integrated business model, highly-competitive products, strong brand equity and extensive experience in the international fashion accessories market, Artini is well poised to capitalise on the opportunities arising from market recovery to become the leading fashion accessories brand across the PRC.

BUSINESS REVIEW

Artini is a leading multi-brand retail operator of fashion accessories and a manufacturer with unique vertical integration in the PRC. Our principal focus is on the retailing of these items under two proprietary brands – Artini and Q'ggle. We are also a concurrent design manufacturer with our services ranging from design to delivery, and our fashion accessories are supplied to internationally respected brands.



Management Discussion and Analysis (Cont'd)

BUSINESS REVIEW (continued)

To cope with the market challenges, the Group slowed down its expansion progress to preserve its capital resources. The number of stores of the Group was reduced to 186 at present from the target of 256 as at 31 March 2009. The Group refocused its priorities to stringent cost control, integration of internal resources, streamlining headcounts, curbing expenses, reducing loss and devising new development strategies in order to return to profit.

In respect of its retail business, the Group proactively negotiated with major shopping malls where our stores were located for minimising the basic and additional rent to reduce operating expenses. In addition, the Group closed down stores with low cost effectiveness and high rental. Resources were reallocated to emerging markets. Moreover, the Group joined hands with shopping malls to organise advertising campaigns to increase brand awareness and reduce advertising expenses. In respect of its CDM business, the Group reduced production cost by proactively negotiating with raw material suppliers for bargain prices to achieve effective cost control and return to profit.

Retail business

The Group's two proprietary brands, Artini and Q'ggle, target highly specialised groups of customers. "Sparks of Life" is Artini's brand concept that embodies classic, elegant and romantic European styling for fashion conscious customers with discriminating tastes. "Trendy and Energetic, Let's Q'ggle!" is the brand concept behind Q'ggle, which targets hip, dynamic, and lively young customers.

To cope with today's rapidly changing operating environment and the current economic turmoil, the Group adopted the following strategies in the year under review:

1. **Negotiation for better rental terms**

   In light of the sudden changes in macro economic conditions that have affected consumer sentiment and pedestrian flow in major shopping malls and arcades, the Group initiated renegotiations with landlords to revise the rental terms and minimum rental requirement and reduce the rental costs in order to ease the burden of rental expenses and to obtain bundled terms with other value-added services such as on-site promotions. Furthermore, the Group closed down the stores with low cost-effectiveness and high rental during the year under review to improve its profitability. The Group's ultimate goal is to maintain rental outlays at a reasonable level.

2. **Developing new distribution channels**

   The Group actively developed new distribution channels during the year under review. We have nurtured cooperative relationships with a number of banking institutions and corporations to establish online business platforms for product purchases and redemption. We have also established an online shopping platform to expand our customer base as well as to reduce operating costs. We consider these to be cost-effective channels for identifying and extending our reach to consumers with high purchasing power.

3. **Introduction of a new business model – expansion through distributors**

   The Group expanded retail network mainly through self-operated stores. However, to maintain a steady pace of network growth in the most cost-effective manner with fast market penetration, we introduced distributorships during the year under review. Distributors with extensive retail experience in the PRC have been selected to manage the operation of the Group's retail outlets in some of the areas. At the end of the year, the Group had entered into cooperative agreements with three distributors to operate one Q'ggle shop and six Artini shops in China.

BUSINESS REVIEW (continued)

4. **Strategic partnerships to broaden the brand portfolio**

   The Group made considerable progress in expanding its brand portfolio by cooperating with renowned sports event hosting bodies to boost the overall brand profile. Artini obtained the manufacturing and sales rights for the gifts of the 2010 Guangzhou Asian Games in November 2008. The first batch of Asian Games licensed products will be launched in August 2009, marking the one-year countdown to the opening ceremony of the Games. These products will also be sold in 500 to 800 franchised stores licensed by the Guangzhou Asian Games Organising Committee.

   In addition, the Group obtained the distribution right for a series of NBA timepieces during the year under review. These items are distributed at Q'ggle outlets as an added attraction for customers.

Retail network

In response to volatile market conditions, the Group changed its strategies by slowing down the expansion of stores and exploring new distribution channels, such as the online shopping platform, to reduce rental expenses.

As at 31 March 2009, there were 105 Artini stores and 81 Q'ggle stores in the PRC, Hong Kong and Macao (31 March 2008: 93 Artini stores and 45 Q'ggle stores).

The majority of our outlets are located in major shopping malls, hotels or department stores. For this reason, we have developed systematic and stringent store site selection procedures which focus on sales locations with high pedestrian throughput and high average consumer purchasing power. To this end, most of our retail outlets across the country are located in department stores, which serve as a primary retail channel for key lifestyle products. Some of our retail stores are also located on the streets with high levels of pedestrian traffic, ensuring a steady flow of customers while helping to enhance overall product brand awareness.

In January 2009, our first Artini and Q'ggle flagship stores opened in Sanlitun, Beijing, further enhancing the Group's brand value and consolidating Artini's leading position in the PRC accessories market.

Management Discussion and Analysis (Cont'd)

BUSINESS REVIEW (continued)

The number of Artini retail points and Q'ggle retail points opened by the Group as at 31 March 2008 and 31 March 2009 are set out below:–

	Artini As at 31 March			Q'ggle As at 31 March		
	2009	2008	Change (%)	**2009**	2008	Change (%)
Retail Stores and Concessions	**94**	86	9.3	**80**	44	81.8
Authorised Retail Outlets	**11**	7	57.1	**1**	1	–
Total	**105**	93	12.9	**81**	45	80.0

CDM business

The Group designs and produces fashion accessories for customers who own or operate international brands. Leveraging our vast experience in the industry and strong international fashion sense, we collaborate closely with our branded goods customers to concurrently develop and design high quality products.

1. **Innovative design and development capabilities**

   We have successfully adapted to ever-changing market trends through the expertise of our talented design team, comprising designers with an international vision from the United Kingdom (the "UK"), Hong Kong and the PRC. Collectively, they introduce fresh, international concepts and ideas to our products.

   In addition to fashion accessories, the design team also bolstered its diversified product offerings with a wide range of fine gift and premium items for customers.

2. **Brand building and marketing**

   During the year under review, the Group continued to adopt effective and diversified marketing strategies. We also enhanced our visibility by promoting our brands at fashion shows, as well as through sponsorships of entertainment events and TV drama series. Our focus has been primarily on print media with ad placements in leading fashion magazines. The Group also utilised outdoor billboards, internet and word-of-mouth to promote our brands and products.

   One of our most innovative marketing efforts saw us join forces with Mr. Dorian Ho, an internationally renowned fashion designer, to introduce a limited edition line of evening and cocktail gowns that match a specially-designed series of Artini products. The new product series were well received by customers, generating very positive media coverage for Artini as a leading accessories brand.

BUSINESS REVIEW (continued)

CDM business (continued)

2. Brand building and marketing (continued)

The Group has also established a customer relationship management ("CRM") programme to enhance customer loyalty. As at 31 March 2009, the number of Artini VIPs was 71,336. The number of Q'ggle VIPs stood at 21,605. These loyal customers have contributed significantly to the Group's overall revenues. The buying behaviour of VIPs was analysed and the data were very useful in improving retail promotions and other marketing-related activities as well as developing new products, which cater to our customers' specific needs and preferences.

3. Production

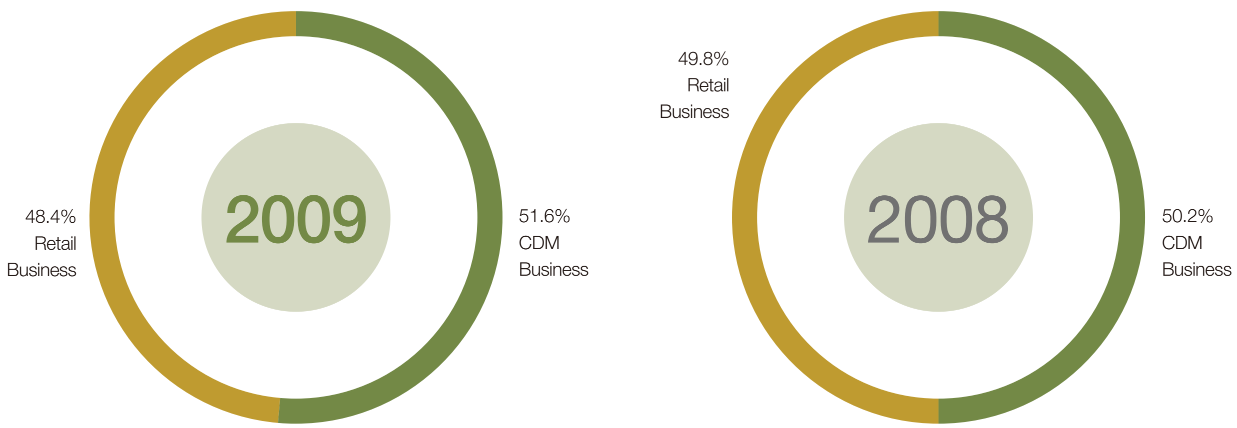
The Group owns a large-scale production centre in Guangdong Province with advanced equipment and facilities that cover approximately 40,000 square metres. The annual output capacity is approximately 10 million pieces with monthly design output reaching approximately 850 pieces. Extra space in the facilities for additional production lines will also support future business expansion. Moreover, we have over 2,000 skilled workers, allowing us to engage in the large-scale production of complex design products. During the year under review, the Group consolidated the internal resources of production facilities and reduced headcounts. Moreover, the Group negotiated with suppliers for more favourable prices to reduce raw material expenses.

FINANCIAL REVIEW

Turnover

As a consequence of last year's global financial tsunami and weakened consumer spending in the PRC, turnover of the Group for the year ended 31 March 2009 amounted to HK$564,101,000, representing a decrease of 5.5% compared to the previous year.

Turnover of the Group by business segments



Retail business

The retail business was one of the two major revenue generators for the year under review, accounting for 48.4% of the Group's total turnover (2008: 49.8%).

During the year under review, turnover from our retail business decreased 8.2% to HK$273 million. This decline was mainly driven by the weakened consumer purchasing power in the PRC market as a consequence of the global financial tsunami.

Management Discussion and Analysis (Cont'd)

FINANCIAL REVIEW (continued)

Retail business turnover

	For the year ended 31 March	
	2009 HK$'000	2008 HK$'000
Hong Kong and Macao	**27,961**	28,190
The PRC	**245,221**	269,273
Total	**273,182**	297,463

CDM business

CDM business turnover recorded a year-on-year decrease of 2.8% to HK$291 million during the year under review, accounting for 51.6% of the Group's total turnover (2008: 50.2%). This decrease was mainly due to the slackened economic conditions in the US and Europe.

Turnover by geographical distribution segments

Turnover of the Group was mainly derived from the PRC, Hong Kong and Macao and the European markets, which accounted for 48.3%, 20.1% and 15.7% of the turnover respectively in 2009, compared to 48.8%, 14.1% and 17.3% in 2008. As a result of economic downturn, turnover from the European market accounted for 15.7% of the total turnover, compared with 17.3% last year.

Cost of sales

Cost of sales increased from approximately HK$220,313,000 for the year ended 31 March 2008 to approximately HK$326,493,000 for the year ended 31 March 2009, representing an increase of approximately HK$106,180,000. This was attributable to the general increase in production cost in line with the rising inflation pressures in the PRC.

Gross profit

The overall gross profit of the Group decreased from HK$376,426,000 in 2008 to HK$237,608,000 in 2009, representing a decrease of 36.9%. The gross profit margin also decreased from approximately 63.1% to approximately 42.1%, primarily due to increase in sales discount to the end customers in the retail segment. The decrease in gross profit margin was also due to the increase in cost from Haifeng factory, which was mainly attributed to: (i) the increase in costs of direct overhead; (ii) the increase in production and material costs as well as the appreciation of RMB. All these factors led to higher overall production costs and lower gross profit margin.

FINANCIAL REVIEW (continued)

Operating expenses

Operating expenses accounted for 63.3% of the Group's total sales, compared with 39.6% last year. They mainly comprised selling and distribution costs as well as administrative outlays, all of which were effectively managed by the Group's reinforced management team along with strengthened internal oversight and process control.

Selling and distribution costs increased from approximately HK$195,883,000 for the year ended 31 March 2008 to approximately HK$302,985,000 for the year ended 31 March 2009, representing an increase of approximately HK$107,102,000. The rise in selling and distribution costs was mainly attributable to our continued increase in advertising and promotion budget in the PRC market to support our retail network expansion. In addition, the increase in rents and wages in the PRC also contributed to the higher expenditures for the year ended 31 March 2009.

The Group's administrative expenses primarily comprised fixed assets depreciation and staff costs for Directors and executives. These expenses amounted to HK$54,336,000 for the year under review, representing 9.6% of the Group's total sales, compared with 6.8% last year.

Other operating expenses increased to HK$23,310,000 (2008: HK$1,479,000) during the year due to the increase in the impairment losses on trade and other receivables from HK$1,021,000 to HK$17,490,000.

Loss attributable to equity shareholders of the Company

Loss attributable to equity shareholders of the Company was HK$140,529,000 (2008: profit attributable to equity shareholders: HK$110,024,000) for the year under review.

Contingent liabilities

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

Income tax

Income tax expense decreased from HK$16,417,000 for the year ended 31 March 2008 to HK$1,866,000 for the year ended 31 March 2009, representing a decrease of HK$14,551,000. This reduction was mainly due to decreased profit contributions from the Group's PRC subsidiaries, resulting in decreased PRC tax payables.

(Loss)/earnings per share

There was a change of earnings per share from HK$0.147 for the year ended 31 March 2008 to loss per share of HK$0.145 for the year ended 31 March 2009.

Dividend

The Board does not recommend the distribution of a final dividend for the year ended 31 March 2009 (2008: Nil).

Management Discussion and Analysis (Cont'd)

FINANCIAL REVIEW (continued)

Foreign exchange exposure

The main business activities of the Group take place in the PRC, Europe and Hong Kong with most transactions settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Directors consider that the potential foreign exchange exposure of the Group is relatively limited. Moreover, the Group has not used any forward contracts or other derivative products to mitigate interest rate or exchange rate risks. The management of the Group will, nonetheless, continue to monitor foreign currency risks and adopt prudent measures as appropriate since our financial policy explicitly prohibits the Group from participating in any speculative activities. During the year under review, the Group recorded exchange gains of approximately HK$253,000.

Significant investments and acquisitions

During the year under review, the Group did not have any significant investments, acquisitions or disposal of subsidiaries and associated companies. We continued to seek opportunities to acquire and cooperate with international customers in order to generate more returns for our shareholders.

Use of the proceeds from the Initial Public Offering

Shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008. The net proceeds from the initial public offering was approximately HK$483.3 million. In response to the change in operating environment , the Group revised its business development and application of un-utilised portion of the net proceeds from the initial public offering. Such decision to change the use of proceeds was disclosed in the Company's interim report dated 22 December 2008. The applications of the proceeds from the initial public offering were as follows:

	Available to utilise as stated in the prospectus of the Company HK$ million	Available to utilise as stated under revised plan as at 30 September 2009 HK$ million	Utilised (as at 31 March 2009) HK$ million	To be utilised for the purpose as stated in the September revised plan (as at 31 March 2009) HK$ million	To be utilised under revised business plan HK$ million
Expansion of retail network	193.3	134.3	45.0	89.3	64.3
Expansion of production capacity	96.7	74.4	19.5	54.9	29.9
Marketing and promotion	72.5	59.6	30.5	29.1	29.1
Improvement of operating system	48.3	16.5	3.8	12.7	12.7
Development of information technology management systems	24.2	9.0	1.0	8.0	8.0
General working capital	48.3	90.4	65.8	24.6	24.6
Repayment of bank loans	–	99.1	99.1	–	–
Investment fund	–	–	–	–	50.0
	483.3	483.3	264.7	218.6	218.6

FINANCIAL REVIEW (continued)

Use of the proceeds from the Initial Public Offering (continued)

Subsequent to the end of the year under review, the Group established an investment committee (the "Investment Committee") on 17 July 2009. Details of the establishment of the Investment Committee were announced in an announcement of the Company dated 17 July 2009. HK$50,000,000 from the proceeds of the initial public offering will be re-designated for investments approved by the Investment Committee.

Impairment losses on trade and other receivables

For the year ended 31 March 2009, the impairment losses on trade and other receivables amounted to approximately HK$17,490,000 (2008: HK$1,021,000).

Employees and emoluments

As at 31 March 2009, the Group had 3,775 employees. To enhance their expertise, product knowledge, marketing skills and overall operational management abilities, the Group organises regular training and development courses for staff, providing them with a competitive remuneration package, including salary, allowance, insurance and commission/bonus. In addition, share options are granted to selected employees based on their individual performance.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009, the Group's outstanding borrowings amounted to HK$420,000, comprising interest-bearing bank borrowings repayable within one year. As at 31 March 2009, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying value of approximately HK$12,552,000; (ii) cross corporate guarantees given by the Company and certain of its wholly-owned subsidiaries. As at 31 March 2009, banking facilities available to the Group amounted to HK$89,346,000 (2008: HK$182,500,000), which were utilised by the Group to the extent of HK$1,755,000 (2008: HK$147,054,000).

The Group monitors its capital structure on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratio of the Group was 10% as at 31 March 2009 (2008: 59%). The Group had time deposits and cash balances as at 31 March 2009 amounted to HK$277,897,000 (2008: HK$59,356,000).

Some of the Group's banking facilities are subject to capital requirements imposed by certain creditor banks. During the year ended 31 March 2009, the Group did not comply with one of the financial covenants imposed by a creditor bank. Upon discovery of the breach, the Directors have renegotiated with the related creditor bank and obtained a waiver after the year end.

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

Management Discussion and Analysis (Cont'd)

FUTURE PROSPECTS

Looking forward, the Group will continue to expand and strengthen its presence in the PRC market. China, being one of the world's fastest growing economies, offers lucrative potential for fashion accessories brand operators with its virtually untapped market. The Group, being one of the leading enterprises in the fashion accessories market of the PRC, is well-positioned to capitalise on market opportunities in the coming years.

With the onset of the recent global financial turmoil, continued inflation pressure in the PRC and the drop in consumer sentiment, the Group will work prudently to expand its retail networks. According to our long-term strategy of introducing distributors to run our retail outlets, the Group will also be able to capitalise on the strengths of these distributors and expand swiftly in the most cost-efficient way.

We have embarked on new business strategies as follows:

Retail Business

1. Our brands were well developed in the fashion accessories market during the past years. Successful brand reputation achieved through quick penetration into the market has attracted quality distributors, and we aim to replace self-operated stores by distributors' stores. Through the distributors' networks, we can enhance our operation efficiency and operation expansion. A distributor conference was held by the Group in Shenzhen in early July 2009 which drew positive response. Certain strong distributors are identified and are in preparation for entering into cooperation agreements with the Group.

2. The Group will also seek cooperation with renowned corporations to form strategic alliances and joint ventures. With the successful establishment and expansion of the Q'ggle brand, we plan to further expand the network to second and third-tier cities in China.

3. To extend distribution network for better sales performance by facilitating cooperation with international brands, such as BARBIE, and strengthening our brand awareness and multi-channel sales development.

4. To develop e-commerce and online sales and expand interaction between our brands and potential customers through e-commerce platforms. For instance, Artini and Q'ggle have established online shopping websites. In addition, the Group has cooperated with QQ paipai, Digital China, Corporate Banking, etc. Such platforms will facilitate sales increase and extend the Group's business coverage globally to overseas markets to acquire larger market share.

5. To undertake large scale activity projects, such as the Group's successful acquisition of production and sales rights in the 2010 Asian Games.

FUTURE PROSPECTS (continued)

CDM Business

1. To increase the production of products with high profit margins and allocate more production capacity for such products, while products with low profit margins are outsourced to quality contractors.

2. To leverage the increasing demand for gifts in the PRC market, the Group will further enhance its product offerings and explore greater market opportunities by co-operating with large corporations to design and produce gift and premium items for their existing and target customers.

3. To develop CDM wholesale business and explore new markets by leveraging the brand awareness of Artini, Q'ggle and Artist Empire.

Meanwhile, the Group will continue to maintain its existing international customer portfolio to achieve steady growth in its CDM business. Stringent cost control measures will be implemented to maintain our margins at a reasonable level and to increase the profitability of this business.

Currently, although the consuming power of overseas markets and for luxury products has been reduced, the consuming power of the middle class in the PRC (i.e. the target consumers of the Group) increases yearly and shows large market potential. The Group keeps abreast of market trend and achieves stable development of our sales business by capitalising on sufficient cash flow and customer resources. The fashion accessories industry in the PRC is picking up momentum for further growth and has substantial business opportunities. We will gradually launch various market adjustment activities under comprehensive plans with well-supported corporate resources. It is believed that we can promptly eliminate the unfavourable impacts from the external environment and turn our business around to achieve stable growth.

Looking ahead, we will dedicate ourselves to consolidating our position as the leading multi-brand retail operator of fashion accessories in China and adopting the multi-brand and multi-channel development strategy to continue to expand business activities across the country as Artini aspires to become a multi-brand operator. We will further cooperate with international brands of different market positioning, and utilise our established platforms and resources to expand our share in the fashion accessories market. We are committed to bringing positive returns to our shareholders.

Sparkling the

Fashion Accessories MARKET IN THE PRC

Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSE Chiu Kwan, aged 45, is the co-founder of the Group and was appointed as the Chairman of the Board and an Executive Director on 14 June 2007. He is also the Chairman of the investment committee of the Company, a member of the remuneration committee and nomination committee of the Company and the authorised representative of the Company. He is a director of a number of subsidiaries of the Company. Mr. Tse, co-founded the Group in June 1992, is primarily responsible for the Group's overall management, strategic planning and business development. He has more than 19 years of experience in the fashion jewelry industry. Mr. Tse is currently the honorary president of the Hong Kong Pearl Association and the Hong Kong Gold & Silver Ornaments Workers & Merchants General Union and the honorary president of the Hong Kong Gemstone Manufacturers' Association. Mr. Tse has also been awarded as a "中國國際愛國愛港傑出人士" (China International Outstanding Person who Loves the Motherland and Hong Kong) jointly by the Investment Committee of Outstanding Chinese People for the Celebration of the 10th Anniversary of the Return of Sovereignty of Hong Kong, the China Straits Triplace Experts Enterpriser Associations, The Hong Kong Small and Medium Enterprises Association and Shenzhen City Southern Privately Run Science and Technology Institute, and a "China Enterprise Award for Creative Businessmen" jointly by China Marketing Association and the China Enterprise News Agency and an honorary citizen of Shanwei City. Mr. Tse is also a member of the 5th term of the Guangdong Shanwei Committee of the Chinese People's Political Consultative Conference. Mr. Tse is the spouse of Ms. Yip Ying Kam, the brother of Mr. Xie Hai Hui and the brother-in-law of Mr. Lin Shao Hua.

Mr. XIE Hai Hui, aged 38, was appointed as Executive Director on 23 April 2008. Mr. Xie joined the Group in January 2002. Mr. Xie is also acting as the Chief Operation Officer of the Group and is primarily responsible for factory management, exports and retail management and development divisions of the Group. Prior to joining the Group, Mr. Xie has over 10 years of experience in the fashion accessories industry. He is currently the vice president of the 1st Executive Committee of the China Fashion Jewelry Industry Association and the vice president of the Fashion Accessories Division of the China Jewelry and Accessories Industry Association. Mr. Xie was also appointed as the vice chairman of Hai Feng County Federation of Industry and Commerce in January 2006, and member of the Executive Committee of Guangdong Federation of Industry & Commerce of General Chamber of Commerce of the Guangdong Province. Mr. Xie has been appointed as the delegate of the National People's Congress of Haifeng County and the delegate of the National People's Congress of Shanwei City respectively. Mr. Xie was awarded as "The Most Competitive Entrepreneur" jointly by the Investment Committee of Outstanding Chinese People for the Celebration of the 10th Anniversary of the Return of Sovereignty of Hong Kong, the China Straits Triplace Experts Enterpriser Associations, The Hong Kong Small and Medium Enterprises Association and Shenzhen City Southern Privately Run Science and Technology Institute on 1 July 2007. Mr. Xie is the brother of Mr. Tse Chiu Kwan and the brother-in-law of Ms. Yip Ying Kam and Mr. Lin Shao Hua.

Ms. HO Pui Yin, Jenny, aged 40, was appointed as executive Director on 23 April 2008 of the Company. She is also the authorised representative and a member of the investment committee of the Company. Ms. Ho has joined the Company and the Group since December 1993 after she completed her academic studies and has more than 15 years of experience in the fashion accessories industry. Prior to her appointment as Executive Director, Ms. Ho was appointed as the General Manager of the Group and is primarily responsible for the management and development of the Group's CDM business since 26 February 2002. Ms. Ho graduated from the University of Central Lancashire with a Degree of Bachelor of Arts (Honours) in Business and Finance.

Biographical Details of Directors and Senior Management (Cont'd)

DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive Directors (continued)

Mr. LIN Shao Hua, aged 49, was appointed as an Executive Director on 17 July 2009. He is also a member of the investment committee of the Company. He has 18 years of experience in factory management and product development. He has worked at Artist Empire (Hai Feng) Jewellery Mfy. Limited, a wholly-owned subsidiary of the Company, as the general manager since 1991, responsible for the overall management and business development of Artist Empire (Hai Feng) Jewellery Mfy. Limited. He is currently a member of the Hai Feng County Committee of the Chinese People's Political Consultative Conference ("海豐縣政協委員"). Mr. Lin is the brother-in-law of Mr. Tse Chiu Kwan and Mr. Xie Hai Hui.

Non-executive Director

Ms. YIP Ying Kam, aged 45, is the co-founder of the Group and was appointed as the Vice Chairman of the Board and an Executive Director on 14 June 2007. Ms. Yip was re-designated as a Non-executive Director on 17 July 2009. She is a director of a number of subsidiaries of the Company. Ms. Yip, co-founded the Group in June 1992 with Mr. Tse, is primarily responsible for overseeing the corporate development, investment divisions, administration, human resources and information technology of the Group. Following her academic studies, she joined Mr. Tse in managing the Group's business. Ms. Yip has over 19 years of experience in the fashion jewelry industry. Ms. Yip has obtained an Honours Diploma in history from the Hong Kong Baptist College (now known as the Hong Kong Baptist University). Ms. Yip is the spouse of Mr. Tse Chiu Kwan and the sister-in-law of Mr. Xie Hai Hui.

Independent Non-executive Directors

Ms. CHAN Man Tuen, Irene, aged 43, was appointed as Independent Non-executive Director on 23 April 2008. She is also a member of the audit committee, remuneration committee and the nomination committee of the Company. Ms Chan worked for Beijing Olympics Broadcasting Company (BOB) as its Head of Human Resources during the Beijing Olympics. Ms. Chan also held various management positions in the Walt Disney Company (Asia Pacific) Limited, the Hongkong Disneyland Management Limited and Shell Hong Kong Limited. Ms. Chan has served a number of charitable or non-profit making bodies, including the Community Chest of Hong Kong (General Donations and Special Events Committee member), the Zonta Club of New Territories (member), and Environmental Campaign Committee (co-opted member of Projects and Publicity Working Group). Ms. Chan graduated from the University of Essex in the UK with a Bachelor degree in Policy-Making and Administration in July 1987 and obtained a Degree of Master of Business Administration from the City University in London and a Degree of Master of Philosophy from the University of Cambridge. Ms. Chan has also completed the research course in Communications from the School of Journalism and Communication at Peking University in 2008.

Mr. LAU Fai Lawrence, aged 37, was appointed as Independent Non-executive Director on 23 April 2008. He is also the Chairman of the audit committee and the nomination committee of the Company and a member of the remuneration committee of the Company. Mr. Lau has extensive experience in accounting, corporate finance and auditing. He is a practising certified public accountant in Hong Kong and is currently the Group Financial Controller of Founder Holdings Limited and EC-Founder (Holdings) Company Limited, both of which are listed on the main board of the Stock Exchange. Mr. Lau has previously worked in Price Waterhouse Company Limited (now known as PricewaterhouseCoopers) as an accountant from 1994 to 1998. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountant in England and Wales and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor's degree in Business Administration and obtained a Master of Corporate Finance from The Hong Kong Polytechnic University.

Biographical Details of Directors and Senior Management (Cont'd)

DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent Non-executive Directors (continued)

Mr. FAN William Chung Yue, aged 68, was appointed as Independent Non-executive Director on 23 April 2008. He is also the Chairman of the remuneration committee of the Company and a member of the audit committee and the nomination committee of the Company. Mr. Fan has been a practising solicitor of the High Court of Hong Kong since 1974. He is currently a consultant of Fan & Fan, Solicitors. Mr. Fan is also a director of Chinney Investments, Limited and a non-executive director of Alltronics Holdings Limited since 1987 and 2005 respectively. Both of these companies are listed on the main board of the Stock Exchange. Mr. Fan graduated from Northwestern University in 1964 with a Degree of Bachelor of Arts and from the University of Edinburgh in 1967 with a Bachelor degree in Laws.

Senior Management

Ms. FU Yin Mei, Gloria, aged 39, is the general manager of our product development department which includes overseeing our product design activities. Ms. Fu joined the Group in May 1995 and has over 16 years of experience in marketing and promotion. Ms. Fu holds a Diploma in Marketing Management from the Chartered Institute of Marketing and an Honours Diploma in Marketing from the Faculty of Business of the Lingnan College of Hong Kong.

Mr. IP Wai Sum, aged 50, is the general manager of our retail division. Mr. Ip joined our Group in August 2007 and is primarily responsible for the retail management and retail business development of the Group, in particular overseeing operations of our "Q'ggle" brand. Mr. Ip has over 20 years of experience in retail chain management in the PRC. Prior to joining of our Group, Mr. Ip worked as Group Deputy General Manager of the Mission Hills Group. Mr. Ip holds a Degree of Bachelor of Commerce from Concordia University in Canada.

COMPANY SECRETARY

Mr. LO Wah Wai, aged 45, has been appointed as the Company Secretary of the Company since 14 January 2009. Mr. Lo is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over 20 years of experience in the accounting and finance industry.

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2009.

PRINCIPAL PLACE OF BUSINESS

The Company is a limited liability company incorporated in Bermuda and domiciled in Hong Kong and its principal place of business is Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are design, manufacturing, retailing and distribution and concurrent design manufacturing ("CDM") of fashion accessories. The principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 17.2% (2008: 11.9%) of the total sales. The top five suppliers accounted for approximately 33.7% (2008: 35.0%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 6.7% (2008: 3.3%) of the total sales and the Group's largest supplier accounted for approximately 12.3% (2008: 15.6%) of the total purchases for the year.

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 March 2009 and the state of the Company's and the Group's affairs as at 31 March 2009 are set out in the financial statements on pages 43 to 110.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividends, of HK$140,529,000 (2008: profit of HK$110,024,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

The Company paid a special dividend of HK$0.04 per share on 9 September 2008. The Directors do not recommend the payment of a final dividend for the year ended 31 March 2009 (2008: Nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$1,543,000 (2008: HK$Nil).

FIXED ASSETS

Details of movements in fixed assets during the financial year are set out in note 14 to the financial statements.

Report of the Directors (Cont'd)

SHARE CAPITAL

During the year, the Company purchased shares of the Company on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). All the shares purchased were cancelled. Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Tse Chiu Kwan
Mr. Xie Hai Hui (appointed on 23 April 2008)
Ms. Ho Pui Yin, Jenny (appointed on 23 April 2008)
Mr. Lin Shao Hua (appointed on 17 July 2009)

Non-executive Director

Ms. Yip Ying Kam (re-designated from executive Director to non-executive Director on 17 July 2009)

Independent Non-executive Directors

Ms. Chan Man Tuen, Irene (appointed on 23 April 2008)
Mr. Lau Fai Lawrence (appointed on 23 April 2008)
Mr. Fan William Chung Yue (appointed on 23 April 2008)

Pursuant to Bye-law 87 of the Bye-laws of the Company, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Bye-law 87 of the Bye-laws of the Company, Mr. Tse Chiu Kwan, Mr. Xie Hai Hui and Ms. Ho Pui Yin, Jenny will retire from office by rotation and Mr. Lin Shao Hua, by virtue of Bye-law 86 of the Bye-laws of the Company, shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the date of listing of the Company (the "Listing Date") on the Stock Exchange (except for Mr. Lin Shao Hua whose service contract commenced on 17 July 2009).

Following the re-designation of Ms. Yip Ying Kam, the current service contract of Ms. Yip was terminated by mutual agreement between Ms. Yip and the Company on 17 July 2009. According to the terms of the new service contract entered into between the Company and Ms. Yip, Ms. Yip has been appointed for an initial term of three years commencing from 17 July 2009.

Each of the independent non-executive Directors has been appointed for a term expiring on 31 August 2009.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors (Cont'd)

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

As at 31 March 2009, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:-

(i) Interests in issued shares and underlying shares

Name of director	Company in which interests are disclosed	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted	Percentage of the issued share capital as at 31 March 2009
Tse Chiu Kwan	The Company	Corporate interest *(Note 1)*	648,088,000 (Long)	–	65.32%
		Beneficial interest	–	5,050,000 (Long) *(Note 2)*	0.51%
Yip Ying Kam	The Company	Corporate interest *(Note 3)*	72,000,000 (Long)	–	7.26%
		Beneficial interest	–	1,500,000 (Long) *(Note 2)*	0.15%
Ho Pui Yin, Jenny	The Company	Beneficial interest	–	500,000 (Long) *(Note 2)*	0.05%
Tse Chiu Kwan	Fully Gain Worldwide Limited	Beneficial interest	1	–	100.00%

Note 1: These shares are held by Fully Gain Worldwide Limited, an associated corporation of the Company, which is wholly and beneficially owned by Mr. Tse Chiu Kwan.

Note 2: These options were granted by the Company under the Pre-IPO Share Option Scheme ("Pre-IPO Scheme") adopted by the Company on 23 April 2008.

Note 3: These shares are held by Excellent Gain International Holdings Limited which is wholly and beneficially owned by Ms. Yip Ying Kam.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(ii) Interests in underlying shares and debentures of the Company

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

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Scheme on 23 April 2008. The purpose of the Pre-IPO Scheme is to give the participants an opportunity to have a personal stake in the Company and to motivate the participants to optimise their performance and efficiency as well as to attract and retain participants whose contributions are important to the long-term growth and profitability of the Group.

An offer of Pre-IPO share options is deemed to be accepted when the Company receives the offer letter signed by the participant specifying the number of shares of the Company in respect of which the offer is accepted, and a remittance to the Company of HK$1.00 as consideration for the grant of the Pre-IPO share options. The subscription price per share was 85% of the offer price per share at the initial public offering of the Company.

All holders of options granted under the Pre-IPO Scheme may only exercise their options in the following manners during an option period of 3 years from the Listing Date; i.e. 16 May 2008:

Period of exercise of the relevant percentage of the option	Maximum percentage of options exercisable
A period of twelve months commencing on the Listing Date	30% of the total number of options granted under the Pre-IPO Scheme
A period of twelve months commencing on the first anniversary date of the Listing Date	30% of the total number of options granted under the Pre-IPO Scheme
A period of twelve months commencing on the second anniversary date of the Listing Date	40% of the total number of options granted under the Pre-IPO Scheme

Report of the Directors (Cont'd)

PRE-IPO SHARE OPTION SCHEME (continued)

Any options that are not exercised on or before each of the exercise periods mentioned above shall lapse.

No further option has been granted or will be granted under the Pre-IPO Scheme after the Listing Date.

Details of principal terms of the Pre-IPO Scheme are set out in the prospectus of the Company dated 2 May 2008. Details of the share options movements during the year ended 31 March 2009 under the Pre-IPO Scheme are as follows:

			Number of share options					
Name of category	Date of grant of share options	Outstanding at 1.4.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2009	Exercise period of share options	Exercise price (HK$)
Directors	*(Note)*							
Mr. Tse Chiu Kwan	02.05.2008	–	1,515,000	–	–	1,515,000	16.05.2008-15.05.2009	1.887
		–	1,515,000	–	–	1,515,000	16.05.2009-15.05.2010	1.887
		–	2,020,000	–	–	2,020,000	16.05.2010-15.05.2011	1.887
Ms. Yip Ying Kam	02.05.2008	–	450,000	–	–	450,000	16.05.2008-15.05.2009	1.887
		–	450,000	–	–	450,000	16.05.2009-15.05.2010	1.887
		–	600,000	–	–	600,000	16.05.2010-15.05.2011	1.887
Ms. Ho Pui Yin, Jenny	02.05.2008	–	150,000	–	–	150,000	16.05.2008-15.05.2009	1.887
		–	150,000	–	–	150,000	16.05.2009-15.05.2010	1.887
		–	200,000	–	–	200,000	16.05.2010-15.05.2011	1.887
Subtotal		–	7,050,000	–	–	7,050,000		
Other Employees								
In aggregate	02.05.2008	–	885,000	–	465,000	420,000	16.05.2008-15.05.2009	1.887
		–	885,000	–	465,000	420,000	16.05.2009-15.05.2010	1.887
		–	1,180,000	–	620,000	560,000	16.05.2010-15.05.2011	1.887
Subtotal		–	2,950,000	–	1,550,000	1,400,000		
Total		–	10,000,000	–	1,550,000	8,450,000		

Note: The closing price is not available before the date of grant as the Company was listed on the Stock Exchange on 16 May 2008.

SHARE OPTION SCHEME

The Company also adopted a Share Option Scheme (the "Scheme") on 23 April 2008. The purpose of the Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing value of the Company and the shares for the benefit of the Company and the shareholders of the Company as a whole.

Participants under the Scheme include Directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any member of the Group.

The principal terms of the Scheme are summarised as follows:

The Scheme was adopted for a period of 10 years commencing from 23 April 2008 and will remain in force until 22 April 2018. The Company may, by ordinary resolution in general meeting or, such date as the Board shall determine, terminate the Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

Upon acceptance of the options, the grantee shall pay HK$1 to the Company as consideration for the grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares of the Company in issue on the Listing Date.

The maximum number of shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the Scheme and any other share option schemes must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Scheme (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by the shareholders in accordance with the Scheme.

SHARE OPTION SCHEME (continued)

Details of the share options movements during the year ended 31 March 2009 under the Scheme are as follows:

			Number of share options					
Name of category	Date of grant of share options	Outstanding at 1.4.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2009	Exercise period of share options	Exercise price (HK$)
Employees	27.03.2009 *(Note)*	–	5,500,000	–	–	5,500,000	27.03.2009-26.03.2019	0.371

Note: The closing price immediately before the date of grant was HK$0.371.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2(n)(ii) and note 25 to the financial statements respectively.

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

As at 31 March 2009, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange:

Name of Shareholders	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital as at 31 March 2009
Fully Gain Worldwide Limited *(Note 1)*	Beneficial interest	648,088,000 (Long)	65.32%
Excellent Gain International Holdings Limited *(Note 2)*	Beneficial interest	72,000,000 (Long)	7.26%
JP Morgan Chase & Co.	Corporate interest	80,000,000 (Long)	8.06%
		80,000,000 (Lending pool)	8.06%

Note 1: Fully Gain Worldwide Limited is wholly and beneficially owned by Mr. Tse Chiu Kwan.

Note 2: Excellent Gain International Holdings Limited is wholly and beneficially owned by Ms. Yip Ying Kam.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, as at 31 March 2009, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company had maintained the public float as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at the balance sheet date are set out in note 22 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 5 of the annual report.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated.

Report of the Directors (Cont'd)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2009, the Company repurchased 7,762,000 shares of HK$0.10 each in the capital of the Company at prices ranging from HK$0.38 to HK$0.59 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	Number of ordinary shares repurchased	Purchase price per ordinary share Highest (HK$)	Purchase price per ordinary share Lowest (HK$)	Aggregate purchase price (HK$)
October 2008	4,202,000	0.48	0.38	1,769,635
January 2009	3,560,000	0.59	0.46	1,983,140
Total	**7,762,000**			**3,752,775**

The Directors considered that shares were repurchased during the year to reduce the dilutive effect of granting of share options.

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Tse Chiu Kwan
Chairman

Hong Kong, 17 July 2009

Corporate Governance Report

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices. This report outlines the principles and the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, which have been adopted by the Group.

In accordance with the requirements of the Listing Rules, the Company has established an audit committee with defined terms of reference to oversee the financial reporting procedures and internal controls of the Group during the year ended 31 March 2009. The Company has also established a nomination committee and a remuneration committee with defined terms of reference. The terms of reference of these Board committees are available upon request.

By a resolution of the Board passed on 17 July 2009, the Board had resolved to establish an investment committee (the "Investment Committee") and that HK$50,000,000 from the proceeds of the initial public offering will be re-designated for investments approved by the Investment Committee. The Investment Committee currently comprises three executive Directors, namely Mr. Tse Chiu Kwan (Chairman), Mr. Lin Shao Hua and Ms. Ho Pui Yin, Jenny. Pursuant to its written terms of reference, the primary function of the Investment Committee is to utilise funds available to make various investments, including but not limited to investments in securities and properties, with an aim to bring a higher return, as compared with bank deposit, to the Company and its shareholders as a whole.

During the year ended 31 March 2009, save for the deviation as disclosed under the paragraph headed "Chairman and Chief Executive Officer" in this annual report, all code provisions set out in the Code were fulfilled by the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year ended 31 March 2009.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. The Board members of the Company currently are:

Executive Directors
Mr. Tse Chiu Kwan (Chairman)
Mr. Xie Hai Hui (Chief Operation Officer)
Ms. Ho Pui Yin, Jenny
Mr. Lin Shao Hua (appointed on 17 July 2009)

Non-executive Director
Ms. Yip Ying Kam (Vice Chairman) (re-designated from executive Director to non-executive Director on 17 July 2009)

Independent Non-executive Directors
Ms. Chan Man Tuen, Irene
Mr. Lau Fai Lawrence
Mr. Fan William Chung Yue

Corporate Governance Report (Cont'd)

The biographical details of all Directors are set out in pages 23 to 25 of the annual report. Save as disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experiences and expertises to the Company.

Functions of the Board

The principal function of the Board is to consider and approve strategies, financial objectives, annual budget, investment proposals of the Group and to assume the responsibilities of corporate governance of the Group. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

Board meetings and Board Practices

The Company adopted the practice of holding Board meetings for executive Directors regularly for once per month throughout the year and at least four meetings a year for both executive and non-executive Directors. The Board will also meet on other occasions when a board-level decision on a particular matter is required. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, at least 14 days notice would be given for the regular meeting by the Company. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached.

Throughout the year, 23 Board meetings were held. Details of the attendance of Directors are as follows:

Name of the Directors	Directors' Attendance
Executive Directors	
Mr. Tse Chiu Kwan	23/23
Ms. Yip Ying Kam (re-designated from executive Director to non-executive Director on 17 July 2009)	22/23
Mr. Xie Hai Hui (appointed on 23 April 2008)	17/22
Ms. Ho Pui Yin, Jenny (appointed on 23 April 2008)	19/22
Independent Non-executive Directors	
Mr. Lau Fai Lawrence (appointed on 23 April 2008)	5/6
Ms. Chan Man Tuen, Irene (appointed on 23 April 2008)	6/6
Mr. Fan William Chung Yue (appointed on 23 April 2008)	5/6

Corporate Governance Report (Cont'd)

Directors' Appointment, Re-election and Removal

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 16 May 2008, except that Mr. Lin Shao Hua was appointed as an executive Director and Ms. Yip Ying Kam re-designated as a non-executive Director on 17 July 2009 respectively and their service contracts commenced on the same day and subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than 3 months' prior written notice.

The service contract of Ms. Yip Ying Kam, a non-executive Director re-designated from executive Director on 17 July 2009, was terminated by mutual agreement between Ms. Yip and the Company on 17 July 2009. According to the terms of the new service contract entered into between the Company and Ms. Yip, Ms. Yip has been appointed for an initial term of three years commencing from 17 July 2009 which may only be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term expiring on 31 August 2009, subject to termination by either party giving the other not less than three months' prior written notice.

In accordance with the Company's Bye-Laws, all Directors (including executive Directors, non-executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years.

Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing more than one-third of the Board. Among the three independent non-executive Directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Ms. Chan Man Tuen, Irene, Mr. Lau Fai Lawrence and Mr. Fan William Chung Yue to be independent.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer ("CEO") should be separated and should not be performed by the same individual. The role of the Chairman is performed by Mr. Tse Chiu Kwan. Mr. Tse is one of the founders of the Group and possesses rich knowledge and experience of the jewellery industry and the related industries, the Board believes that vesting the role of the chairman in Mr. Tse provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the shareholders.

The Company has not appointed a CEO during the year under review. The overall management of the Company was performed by Mr. Tse Chiu Kwan, Ms. Yip Ying Kam, Mr. Xie Hai Hui and Ms. Ho Pui Yin, Jenny, all are executive Directors (except that Ms. Yip was re-designated to non-executive Director on 17 July 2009) who have extensive experience in the jewellery industry. Their respective areas of profession spearheaded the Group's overall development and business strategies.

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

Corporate Governance Report (Cont'd)

Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

Audit Committee

Composition

The audit committee of the Company ("Audit Committee") was established on 23 April 2008 with written terms of reference in compliance with the Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of our Group.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 March 2009 and the interim financial statements for the six months ended 30 September 2008, including the accounting principles and practice adopted by the Group.

During the year ended 31 March 2009, the Audit Committee had performed their primary duties to review and supervise the financial reporting process and the internal control procedures of the Company and had also held meetings with the Company's auditors, KPMG, to discuss the auditing, internal controls and financial reporting matters of the Company.

Details of the Directors' attendance of the Audit Committee meetings are as follows:

Name of the Directors	Directors' Attendence
Mr. Lau Fai Lawrence	2/2
Ms. Chan Man Tuen, Irene	2/2
Mr. Fan William Chung Yue	2/2

Remuneration Committee

Composition

The remuneration committee of the Company (the "Remuneration Committee") was established on 23 April 2008 with written terms of reference in compliance with the Code. The Remuneration Committee comprises four members, namely Mr. Fan William Chung Yue (Chairman), Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene and Mr. Lau Fai Lawrence, the majority of which are independent non-executive Directors.

The primary functions of the Remuneration Committee are to make recommendations to the Board on remuneration of Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management.

Details of the Directors' attendance of the Remuneration Committee meeting are as follows:

Name of the Directors	Directors' Attendence
Mr. Fan William Chung Yue	1/1
Mr. Tse Chiu Kwan	1/1
Ms. Chan Man Tuen, Irene	1/1
Mr. Lau Fai Lawrence	1/1

During the year ended 31 March 2009, one Remuneration Committee meeting was held to review the remuneration packages of all Directors and senior management. The meeting also discussed setting up a fund for the purpose of rewarding outstanding employees who have a significant contribution to the Company and the grant of share options.

Remuneration Policy for Directors and Senior Management

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee.

The Company has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme both on 23 April 2008. The purpose of these share option schemes is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimise their performance and efficiency for the benefit of the Group.

Nomination Committee

Composition

The Nomination Committee was established on 23 April 2008 with written terms of reference in compliance with the Code. The Nomination Committee currently comprises four members, namely Mr. Lau Fai Lawrence (Chairman), Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene and Mr. Fan William Chung Yue, the majority of which are independent non-executive Directors.

The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independency and integrity.

Details of the Directors' attendance of the Nomination Committee meeting are as follows:

Name of the Directors	Directors' Attendence
Mr. Lau Fai Lawrence	1/1
Mr. Tse Chiu Kwan	1/1
Ms. Chan Man Tuen, Irene	1/1
Mr. Fan William Chung Yue	1/1

Corporate Governance Report (Cont'd)

ACCOUNTABILITY AND AUDIT

Directors' and Auditors Responsibilities for the Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 March 2009, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The reporting responsibility of the external auditor of the Company on the financial statements of the Company for the year ended 31 March 2009 are set out in the Independent Auditor's Report.

Messrs. Deloitte Touche Tohmatsu were appointed as external taxation advisor for the year ended 31 March 2009.

Auditors' Remuneration

During the year ended 31 March 2009, the remuneration paid or payable to the auditors, KPMG, in respect of their audit and non-audit services were as follows:

Type of Services	HK$'000
Audit services	1,900
Non-audit services	–
Total	1,900

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Company has prepared an internal control report, covering all material controls, including financial and operation for the year. Subsequent to the date of this annual report, the Company will engage an independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Group found. The said internal control report compiled by the Company has to be brought to the attention of the Board and the Audit Committee and concluded that the Group operate satisfactorily and there is no material discrepancy.

To further strengthen the internal controls of the Group, the Company has established the control department to provide day-to-day management of the compliance and control of the Group and to work closely with the Board on control and compliance matters. The control department is currently headed by Ms. Yip Ying Kam, an executive Director who was re-designated to a non-executive Director on 17 July 2009, and reports directly to the Board. The primary responsibilities of the control department include conducting meetings regularly and it works closely with the Board to monitor the internal control system within the Group. In addition, it will carry out assessment in relation to the establishment of new company or entity and new product of the Company.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognises that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders of the Company receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company’s website at www.artini-china.com. The Board continues to maintain regular dialogues with institutional investors and analysts to keep them informed of the Group’s strategy, operations, management and plans. The Directors and the committee members are available to answer questions at annual general meetings. Separate resolutions would be proposed at general meetings on each substantially separate issue.

Shareholders’ Right

The Company shall adhere to the amendments to the Listing Rules effective from 1 January 2009 such that all votes of the shareholders at general meetings will be taken by poll. The results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company’s correspondence address in Hong Kong.

Independent Auditor's Report

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARTINI CHINA CO. LTD.

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Artini China Co. Ltd. (the "Company") set out on pages 43 to 110, which comprise the consolidated and Company balance sheets as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, 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 the 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 section 90 of the Bermuda Companies Act 1981, 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.

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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2009 and of the Group's loss and cash flows for the year then ended 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
17 July 2009

Consolidated Income Statement

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Turnover	*4, 13*	**564,101**	596,739
Cost of sales		**(326,493)**	(220,313)
Gross profit		**237,608**	376,426
Other revenue	*5*	**5,504**	246
Other net loss	*5*	**(122)**	(8,223)
Selling and distribution costs		**(302,985)**	(195,883)
Administrative expenses		**(54,336)**	(40,650)
Other operating expenses		**(23,310)**	(1,479)
(Loss)/profit from operations		**(137,641)**	130,437
Finance costs	*6(a)*	**(1,022)**	(3,996)
(Loss)/profit before taxation	*6*	**(138,663)**	126,441
Income tax	*7(a)*	**(1,866)**	(16,417)
(Loss)/profit attributable to equity shareholders of the Company		**(140,529)**	110,024
Dividends payable to equity shareholders of the Company attributable to the year:	*11*		
Interim dividend declared and paid during the year		**–**	69,000
Special dividend proposed after the balance sheet date		**–**	40,000
		–	109,000
(Loss)/earnings per share (HK$)	*12*		
Basic and diluted		**(0.145)**	0.147

The notes on pages 50 to 110 form part of these financial statements.

Consolidated Balance Sheet

as at 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets	14		
– Investment property		**3,766**	–
– Property, plant and equipment		**66,803**	68,452
– Interests in leasehold land held for own use under operating leases		**20,962**	21,745
Intangible assets	15	**6,311**	593
Rental deposits		**13,095**	10,130
Deferred tax assets	26(b)	**10,146**	4,294
		121,083	105,214
Current assets			
Inventories	17	**56,327**	56,491
Trade and other receivables	18	**57,956**	153,300
Current tax recoverable	26(a)	**1,477**	721
Cash and cash equivalents	20	**277,897**	59,356
		393,657	269,868
Current liabilities			
Trade and other payables	21	**49,501**	63,492
Bank loans and overdrafts	22	**420**	114,142
Obligations under finance leases	23	**181**	345
Current tax payable	26(a)	**1,083**	15,118
		51,185	193,097
Net current assets		**342,472**	76,771
Total assets less current liabilities		**463,555**	181,985

Consolidated Balance Sheet (Cont'd)

as at 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Bank loans	*22*	**–**	26,427
Obligations under finance leases	*23*	**–**	181
Deferred tax liabilities	*26(b)*	**2,030**	1,015
		2,030	27,623
NET ASSETS		**461,525**	154,362
CAPITAL AND RESERVES	*27*		
Share capital		**99,224**	385
Reserves		**362,301**	153,977
TOTAL EQUITY		**461,525**	154,362

Approved and authorised for issue by the board of directors on 17 July 2009.

Tse Chiu Kwan
Director

Ho Pui Yin, Jenny
Director

The notes on pages 50 to 110 form part of these financial statements.

Company Balance Sheet

as at 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Interests in subsidiaries	16	573,836	–
Current assets			
Prepayments and other receivables	18	395	9,036
Cash and cash equivalents	20	30,267	–
		30,662	9,036
Current liabilities			
Accrued charges and other payables	21	3,216	10,541
Net current assets/(liabilities)		27,446	(1,505)
NET ASSETS/(LIABILITIES)		601,282	(1,505)
CAPITAL AND RESERVES	27		
Share capital		99,224	–
Reserves		502,058	(1,505)
TOTAL EQUITY		601,282	(1,505)

Approved and authorised for issue by the board of directors on 17 July 2009.

Tse Chiu Kwan
Director

Ho Pui Yin, Jenny
Director

The notes on pages 50 to 110 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital	Share premium (note 27(c)(i))	Other reserve (note 27(c)(iii))	Translation reserve (note 27(c)(iv))	PRC statutory reserves (note 27(c)(v))	Employee share-based capital reserve (note 27(c)(vi))	Legal reserve (note 27(c)(vii))	Retained earnings/ (accumulated losses)	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2007		384	–	–	2,388	3,977	–	97	93,801	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	11	–	–	–	–	–	–	–	(69,000)	(69,000)
Issue of shares		1	–	–	–	–	–	–	–	1
Appropriation to reserves		–	–	–	–	11,823	–	–	(11,823)	–
At 31 March 2008		385	–	–	15,078	15,800	–	97	123,002	154,362
At 1 April 2008		**385**	**–**	**–**	**15,078**	**15,800**	**–**	**97**	**123,002**	**154,362**
Arising from reorganisation		**(385)**	**–**	**385**	**–**	**–**	**–**	**–**	**–**	**–**
Capitalisation issue	27	**55,000**	**(55,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Shares issued under the placing and global offering	27	**25,000**	**530,000**	**–**	**–**	**–**	**–**	**–**	**–**	**555,000**
Issue of shares	27	**20,000**	**–**	**(20,000)**	**–**	**–**	**–**	**–**	**–**	**–**
Share issuance costs	27	**–**	**(71,819)**	**–**	**–**	**–**	**–**	**–**	**–**	**(71,819)**
Share options granted		**–**	**–**	**–**	**–**	**–**	**6,869**	**–**	**–**	**6,869**
Repurchases of own shares										
– par value paid	27	**(776)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(776)**
– premium paid	27	**–**	**(2,990)**	**–**	**–**		**–**	**–**	**–**	**(2,990)**
Net loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(140,529)**	**(140,529)**
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		**–**	**–**	**–**	**1,408**	**–**	**–**	**–**	**–**	**1,408**
Dividend paid	11	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(40,000)**	**(40,000)**
Appropriation to reserves		**–**	**–**	**–**	**–**	**5,531**	**–**	**–**	**(5,531)**	**–**
At 31 March 2009		**99,224**	**400,191**	**(19,615)**	**16,486**	**21,331**	**6,869**	**97**	**(63,058)**	**461,525**

The notes on pages 50 to 110 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
(Loss)/profit before taxation		**(138,663)**	126,441
Adjustments for:			
– Depreciation		**33,154**	14,045
– Finance costs		**1,022**	3,996
– Interest income		**(3,980)**	(230)
– Net (gain)/loss on disposal of property, plant and equipment		**(12)**	578
– Impairment loss on property, plant and equipment		**3,661**	–
– Amortisation of intangible assets		**1,044**	–
– Equity-settled share-based payment expenses		**6,869**	–
– Foreign exchange gain		**(811)**	(1,386)
Operating (loss)/profit before changes in working capital		**(97,716)**	143,444
Decrease/(increase) in inventories		**164**	(26,490)
Decrease/(increase) in trade and other receivables		**39,816**	(43,920)
(Decrease)/increase in trade and other payables		**(5,857)**	12,560
Increase in rental deposits		**(2,965)**	(8,500)
Cash (used in)/generated from operations		**(66,558)**	77,094
Tax paid			
– Hong Kong Profits Tax paid		**(7,530)**	(2,509)
– PRC tax paid		**(13,964)**	(15,456)
Net cash (used in)/generated from operating activities		**(88,052)**	59,129
Investing activities			
Payment for the purchase of property, plant and equipment		**(36,784)**	(45,038)
Proceeds from disposal of property, plant and equipment		**49**	–
Interest received		**3,980**	230
Payment for purchase of intangible assets		**(6,748)**	(1)
Changes in amount due from a director		**55,373**	(53,867)
Net cash generated from/(used in) investing activities		**15,870**	(98,676)

Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 March 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Financing activities			
Capital element of finance lease rentals paid		**(345)**	(321)
Proceeds from new bank loans		**–**	80,000
Repayment of bank loans		**(121,627)**	(5,619)
Proceeds from new shares issued		**483,181**	1
Interest element of finance lease rentals paid		**(26)**	(50)
Other borrowing costs paid		**(996)**	(3,946)
Payment for repurchase of shares		**(3,766)**	–
Dividends paid to equity shareholders of the Company		**(39,997)**	–
Changes in net amounts due to related parties		**(7,982)**	(55)
Changes in amount due to a director		**–**	(2,301)
Net cash generated from financing activities		**308,442**	67,709
Net increase in cash and cash equivalents		**236,260**	28,162
Cash and cash equivalents at 1 April	*20*	**40,834**	12,276
Effect of foreign exchange rate changes		**803**	396
Cash and cash equivalents at 31 March	*20*	**277,897**	40,834

The notes on pages 50 to 110 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(a) Reporting entity

Artini China Co. Ltd. was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Bermuda Companies Act 1981. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008.

(b) Reorganisation

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries now comprising the group (collectively referred to as the "Group") which was completed on 23 April 2008 to rationalise the group structure for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus dated 2 May 2008 issued by the Company.

(c) Basis of presentation

The Reorganisation of the Group 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.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders (the "Controlling Shareholders") before and immediately after the Reorganisation, there was a continuation of the risks and benefits to the Controlling Shareholders. Accordingly, this is considered a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. The consolidated financial statements for the years ended 31 March 2008 and 31 March 2009 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.

Accordingly, the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31 March 2008 and 31 March 2009 include the results of operations of the companies comprising the Group for the years ended 31 March 2008 and 31 March 2009 (or where the companies were established/incorporated at a date later than 1 April 2007 for the periods from the date of establishment/incorporation to 31 March 2008 and 31 March 2009) as if the companies now comprising the Group had been in existence throughout the years presented. The consolidated balance sheet of the Group as at 31 March 2008 is prepared to present the state of affairs of the companies comprising the Group as at that date as if the combined entities had been in existence as at that date.

All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

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 Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substances of the underlying events and circumstances relevant to the entity. The financial statements are presented in Hong Kong Dollars (HK$), rounded to the nearest thousand except for per share data.

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

The preparation of 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 financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

(d) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)). Investment properties 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. Any gain or loss arising from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(q)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(g)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(g).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

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

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 and are recognised in profit or loss on the date of retirement or disposal.

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 – 10 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.

(f) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(h)). Amortisation of intangible assets with finite lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both 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.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(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(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to profit or loss 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 profit or loss 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 profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or 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 profit or loss. 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.

Impairment losses for doubtful debts are recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amount previously written off directly are recognised in the profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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:

– fixed assets;

– intangible assets; and

– investments in subsidiaries.

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 profit or loss 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 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.

– *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 profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting,* in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

(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.

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 is recognised 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 allowance for impairment of doubtful debts (see note 2(h)), 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 doubtful debts (see note 2(h)).

(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 profit or loss 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 immaterial, in which case they are stated at cost.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 consolidated cash flow statement.

(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.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the appropriate valuation techniques, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 profit or loss 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.

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, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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 the Company or 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 Company or 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) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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.

(q) Revenue 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 profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered to the customers' premises 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.

(ii) Interest income

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

(iii) Government subsidies

Government subsidies are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Translation of foreign currencies

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 profit or loss.

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.

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 foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in 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 foreign operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss 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 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 Group;

(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

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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, 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. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new Interpretations and an Amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company.

However, none of these developments is relevant to the Group's and the Company's operations. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

4 TURNOVER

The principal activities of the Group are design, manufacturing, retailing and distribution and concurrent design manufacturing ("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:

	2009 HK$'000	2008 HK$'000
Retailing and distribution		
– Hong Kong and Macao	**27,961**	28,190
– PRC	**245,221**	269,273
CDM	**290,919**	299,276
	564,101	596,739

5 OTHER REVENUE AND NET LOSS

	2009 HK$'000	2008 HK$'000
Other revenue		
Interest income	**3,980**	230
Gross rental income from investment property	**225**	–
Government subsidies	**1,155**	–
Others	**144**	16
	5,504	246
Other net loss		
Net exchange gain/(loss)	**253**	(8,203)
(Provision)/reversal of provision for long service payments	**(387)**	558
Net gain/(loss) on disposal of property, plant and equipment	**12**	(578)
	(122)	(8,223)

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

		2009 HK$'000	2008 HK$'000
(a)	**Finance costs:**		
	Interest on bank advances wholly repayable within five years	996	1,764
	Interest on bank advances wholly repayable beyond five years	–	2,182
	Finance charges on obligations under finance leases	26	50
		1,022	3,996
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	8,977	6,756
	Equity-settled share-based payment expenses *(note 25)*	6,869	–
	Salaries, wages and other benefits	149,002	117,486
		164,848	124,242
	Staff costs include directors' remuneration (see note 8).		
(c)	**Other items:**		
	Depreciation		
	– assets held for use under finance leases	303	303
	– other assets	32,851	13,742
	Amortisation of intangible assets	1,044	–
	Impairment loss on trade and other receivables	17,490	1,021
	Impairment loss on property, plant and equipment	3,661	–
	Auditors' remuneration	2,209	2,744
	Operating lease charges in respect of properties		
	– minimum lease payments	73,637	47,246
	– contingent rent	35,937	36,341
	Operating lease charges in respect of billboards	8,086	6,010
	Rentals receivable from investment property less direct outgoing of HK$1,000 (2008: HK$Nil)	224	–
	Cost of inventories#	326,493	220,313

Cost of inventories includes HK$61,676,000 (2008: HK$51,402,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2009 HK$'000	2008 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	276	1,910
(Over)/under-provision in respect of prior years	(44)	35
	232	1,945
Current tax – PRC		
Provision for the year	6,471	17,114
Deferred tax		
Origination and reversal of temporary differences	(4,837)	(2,642)
	1,866	16,417

Notes:

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

(ii) In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 March 2009. This decrease is taken into account in the preparation of the Group's and the Company's 2009 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 17.5%) of the estimated assessable profits for the year.

(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) On 16 March 2007, the National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law"). Under the New Tax Law, effective from 1 January 2008, the statutory income tax rate applicable to the Company's subsidiaries in Shenzhen has changed from 15% to 25% progressively under a 5-year transition period from years 2008 to 2012 (2008: 18%; 2009: 20%; 2010: 22%; 2011: 24%; 2012: 25%). For the subsidiary located in Hai Feng, the statutory income tax rate has changed from 24% to 25% from 1 January 2008. Under the New Tax Law, the Hai Feng subsidiary can continue to enjoy the unexpired tax holiday during which it is fully exempted from PRC enterprise income tax for two years starting from their first profit-making year in 2005, followed by a 50% reduction in the PRC enterprise income tax for three years through 2009. These changes are taken into account in the preparation of the Group's 2009 financial statements. Accordingly, the provision for PRC statutory income tax for the Company's subsidiaries in Shenzhen and Hai Feng for 2009 is calculated at the revised tax rates in the corresponding tax jurisdictions.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

Notes: (continued)

(vi) Under the New Tax Law, a 10% withholding tax will also be levied on dividends declared to foreign investors from the PRC entities. However, only the dividends attributable to the profits of the financial period starting from 1 January 2008 will be subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Group is subject to a withholding tax at the rate of 5% for any dividend payments from certain of the Group's PRC subsidiaries.

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

	2009 HK$'000	2008 HK$'000
(Loss)/profit before taxation	**(138,663)**	126,441
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (losses)/profits in the jurisdictions concerned	**(20,146)**	20,396
Tax effect of non-deductible expenses	**8,302**	1,764
Tax effect of non-taxable income	**(4)**	(29)
Tax effect of unused tax losses not recognised	**12,252**	302
Tax effect of utilisation of tax losses not recognised in prior years	**(132)**	(212)
Tax effect of reversal of unused tax losses recognised in prior years	**3,348**	–
Effect of tax concessions granted to subsidiaries	**(1,755)**	(5,839)
(Over)/under-provision in respect of prior years	**(45)**	35
Others	**46**	–
Actual tax expense	**1,866**	16,417

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Equity-settled share-based payments *(note (i))*	2009 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors							
Tse Chiu Kwan	–	2,712	–	12	2,724	3,106	5,830
Yip Ying Kam	–	2,084	–	12	2,096	923	3,019
Xie Hai Hui	–	1,195	–	10	1,205	–	1,205
Ho Pui Yin, Jenny	–	1,399	–	12	1,411	307	1,718
Independent non-executive directors							
Chan Man Tuen, Irene *(note (ii))*	158	–	–	–	158	–	158
Lau Fai Lawrence *(note (ii))*	194	–	–	–	194	–	194
Fan William Chung Yue *(note (ii))*	158	–	–	–	158	–	158
	510	7,390	–	46	7,946	4,336	12,282

8 DIRECTORS' REMUNERATION (continued)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Equity-settled share-based payments *(note (i))*	2008 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors							
Tse Chiu Kwan	–	2,362	–	12	2,374	–	2,374
Yip Ying Kam	–	2,362	–	12	2,374	–	2,374
Xie Hai Hui	–	240	–	–	240	–	240
Ho Pui Yin, Jenny	–	1,086	–	12	1,098	–	1,098
Independent non-executive directors							
Chan Man Tuen, Irene *(note (ii))*	–	–	–	–	–	–	–
Lau Fai Lawrence *(note (ii))*	–	–	–	–	–	–	–
Fan William Chung Yue *(note (ii))*	–	–	–	–	–	–	–
	–	6,050	–	36	6,086	–	6,086

Notes:

(i) These represent the estimated value of share options granted to the directors under the Company's share option schemes. The value of these share options was measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(n)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Pre-IPO Share Option Scheme" in the Report of the Directors and note 25.

(ii) The independent non-executive directors were appointed on 23 April 2008.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2008: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other one (2008: two) individuals are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other emoluments	**1,297**	1,857
Share-based payments	**247**	–
Retirement scheme contributions	**11**	22
	1,555	1,879

The emoluments of the one (2008: two) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
HK$Nil – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**1**	1

10 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$39,921,000 (2008: HK$1,505,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2009 HK$'000	2008 HK$'000
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements	**(39,921,000)**	(1,505,000)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**43,000,000**	–
Company's profit/(loss) for the year *(note 27(a))*	**3,079,000**	(1,505,000)

11 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2009 HK$'000	2008 HK$'000
Interim dividend declared and paid during the year	–	69,000
Special dividend proposed after the balance sheet date	–	40,000

The interim dividends presented during the year ended 31 March 2008 represented dividends declared by Artist Empire Gifts & Premium Mfy. Limited, Gentleman Investments Limited, Artist Empire Jewellery Enterprise Company Limited, TCK Company Limited and Arts Empire Macao Commercial Offshore Limited, to their then shareholders before they became subsidiaries of the Company pursuant to the Reorganisation (note 1(b)). All the dividends were fully settled in March 2008.

The special dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2009 HK$'000	2008 HK$'000
Special dividend in respect of the previous financial year, approved and paid during the year, of HK$0.04 per share (2008: HK$Nil)	40,000	–

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

12 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31 March 2009 is based on the loss attributable to equity shareholders of the Company of HK$140,529,000 (2008: profit of HK$110,024,000) and the weighted average number of ordinary shares in issue during the year ended 31 March 2009 of 965,847,261 (2008: 750,000,000 ordinary shares). The weighted average number of shares in issue during the years ended 31 March 2009 and 2008 is calculated on the assumption that the 750,000,000 ordinary shares issued upon the Reorganisation were outstanding throughout the entire two years.

Weighted average number of ordinary shares

	2009 No. of shares	2008 No. of shares
Shares issued upon Reorganisation	**750,000,000**	750,000,000
Effect of shares issued under placing and public offering on 16 May 2008	**218,493,151**	–
Effect of shares repurchased *(note 27(b)(ii))*	**(2,645,890)**	–
Weighted average number of shares at 31 March	**965,847,261**	750,000,000

Diluted loss per share equals to basic loss per share for the year ended 31 March 2009 because the exercise of share options would result in a decrease in the loss per share.

Diluted earnings per share equals to basic earnings per share for the year ended 31 March 2008 because there were no dilutive potential ordinary shares during that year.

13 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.

13 SEGMENT REPORTING (continued)

Business segments (continued)

	2009					
	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$'000	Consolidated HK$'000
Revenue from external customers	245,221	27,961	273,182	290,919	–	564,101
Inter-segment revenue	–	–	–	61,447	(61,447)	–
Total	245,221	27,961	273,182	352,366	(61,447)	564,101
Segment result	(82,059)	(17,310)	(99,369)	10,705	–	(88,664)
Unallocated operating income and expenses						(48,977)
Loss from operations						(137,641)
Finance costs						(1,022)
Income tax						(1,866)
Loss after taxation						(140,529)
Depreciation and amortisation for the year	26,140	2,852	28,992	4,664		33,656
Unallocated depreciation and amortisation						542
Total depreciation and amortisation						34,198
Segment assets	145,746	5,105	150,851	60,493		211,344
Unallocated assets						303,396
Total assets						514,740
Segment liabilities	20,481	923	21,404	27,990		49,394
Unallocated liabilities						3,821
Total liabilities						53,215
Capital expenditure incurred during the year	29,008	756	29,764	13,768		43,532
Impairment loss						
– trade and other receivables	14,976	–	14,976	2,514		17,490
– property, plant and equipment	3,661	–	3,661	–		3,661

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

13 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$'000	Consolidated HK$'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)
Income tax						(16,417)
Profit after taxation						110,024
Depreciation and amortisation for the year	7,307	1,125	8,432	3,019		11,451
Unallocated depreciation and amortisation						2,594
Total depreciation and amortisation						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
Impairment loss on trade and other receivables	–	–	–	1,021		1,021

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

13 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

	2009 HK$'000	2008 HK$'000
Hong Kong and Macao	113,299	84,396
Mainland China	272,709	291,164
Other parts of Asia	14,487	27,576
Americas	62,205	76,709
Europe	88,791	103,209
Africa	12,610	13,685
	564,101	596,739

Segment assets

	2009 HK$'000	2008 HK$'000
Hong Kong and Macao	7,229	120,150
Mainland China	204,115	100,490
	211,344	220,640

Capital expenditure incurred during the year

	2009 HK$'000	2008 HK$'000
Hong Kong and Macao	290	7,094
Mainland China	43,242	37,944
	43,532	45,038

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

14 FIXED ASSETS

	The Group									
	Buildings HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Sub-total HK$'000	Investment property HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
At cost:										
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
At 1 April 2008	17,419	30,136	26,838	3,276	8,127	13,504	99,300	–	23,375	122,675
Exchange adjustments	167	509	488	42	30	267	1,503	–	248	1,751
Additions	8,327	15,813	3,749	1,792	1,312	5,791	36,784	–	–	36,784
Disposals	(1,617)	(5,207)	(5)	(311)	(1,094)	(54)	(8,288)	–	–	(8,288)
Transfer *(note c)*	(8,251)	–	–	–	–	–	(8,251)	8,251	–	–
At 31 March 2009	**16,045**	**41,251**	**31,070**	**4,799**	**8,375**	**19,508**	**121,048**	**8,251**	**23,623**	**152,922**
Accumulation amortisation and depreciation:										
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
At 1 April 2008	8,096	8,538	4,538	1,888	5,488	2,300	30,848	–	1,630	32,478
Exchange adjustments	18	175	63	18	9	46	329	–	20	349
Charge for the year	654	23,022	4,687	922	967	1,615	31,867	276	1,011	33,154
Written back on disposals	(1,617)	(5,207)	(5)	(312)	(1,093)	(17)	(8,251)	–	–	(8,251)
Transfer *(note c)*	(4,209)	–	–	–	–	–	(4,209)	4,209	–	–
Impairment loss	–	3,661	–	–	–	–	3,661	–	–	3,661
At 31 March 2009	**2,942**	**30,189**	**9,283**	**2,516**	**5,371**	**3,944**	**54,245**	**4,485**	**2,661**	**61,391**
Net book value:										
At 31 March 2009	**13,103**	**11,062**	**21,787**	**2,283**	**3,004**	**15,564**	**66,803**	**3,766**	**20,962**	**91,531**
At 31 March 2008	9,323	21,598	22,300	1,388	2,639	11,204	68,452	–	21,745	90,197

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

14 FIXED ASSETS (continued)

(a) The analysis of net book value of properties is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Medium term leases		
– in Hong Kong	**12,552**	13,237
– outside Hong Kong	**25,279**	17,831
	37,831	31,068
Representing:		
Buildings	**13,103**	9,323
Investment property carried at cost	**3,766**	–
Interests in leasehold land held for own use under operating leases	**20,962**	21,745
	37,831	31,068

In connection with the listing of the Company's shares on the Stock Exchange (note 1(a)), the Group carried out a valuation on all of its properties 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 properties based on market value as at 31 March 2008 amounted to HK$65,700,000. The valuation surplus of HK$34,632,000 was not recognised in these consolidated financial statements.

(b) Property, plant and equipment held under finance leases

The Group acquired motor vehicles under finance leases expiring from one to three years.

At the balance sheet date, the net book value of motor vehicles held under finance leases of the Group was HK$606,000 (2008: HK$909,000). These assets are pledged to secure the Group's obligations under finance leases (note 23).

14 FIXED ASSETS (continued)

(c) Fixed assets leased out under operating leases

During the year ended 31 March 2009, a property with a carrying value amounting to HK$4,042,000 held in Hong Kong under a medium-term lease was transferred from leasehold land and buildings to investment property because the Group has changed its intention in respect of the use of this property.

The fair value of the investment property was estimated to be HK$7,000,000 as at 31 March 2009 by Goldrich Planners & Surveyors Ltd. with reference to the recent transaction history of nearby similar properties.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Within 1 year	**75**	–

(d) Fixed assets pledged for bank borrowings

As at 31 March 2009, certain of the Group's properties with net book value of HK$12,552,000 (2008: HK$13,237,000) were pledged as security for certain bank borrowings granted to the Group (note 22).

(e) Impairment loss

During the year, the Group's management identified several retail stores which have indication of impairment. Accordingly, they estimated the recoverable amounts of the fixed assets of these retail stores. Based on these estimates, the carrying amount of the fixed assets was written down by HK$3,661,000 (2008: HK$Nil) during the year. The estimated recoverable amounts were determined based on the estimated future cash flows generated from these fixed assets. The impairment loss was included in "Other operating expenses" in the consolidated income statement.

15 INTANGIBLE ASSETS

	The Group Licence fees HK$'000	Trademarks HK$'000	Total HK$'000
Cost:			
At 1 April 2007	–	592	592
Additions	–	1	1
At 31 March 2008	–	593	593
At 1 April 2008	–	593	593
Additions	6,748	–	6,748
Exchange adjustments	17	–	17
At 31 March 2009	6,765	593	7,358
Accumulated amortisation:			
At 1 April 2007, 31 March 2008 and 1 April 2008	–	–	–
Charge for the year	(1,044)	–	(1,044)
Exchange adjustments	(3)	–	(3)
At 31 March 2009	(1,047)	–	(1,047)
Net book value:			
At 31 March 2009	5,718	593	6,311
At 31 March 2008	–	593	593

Intangible assets represent the registration cost of the Group's trademarks used in the manufacture and sale of the Group's products and the licence fees paid for using certain trademarks of third parties. The trademarks related to the Group's brand name are considered to have indefinite useful lives and are not amortised. The licence fees in respect of third parties' trademarks are amortised on a straight line basis over the contract periods of 2 to 3 years. The amortisation charge for the year is included in "Selling and distribution costs" in the consolidated income statement.

16 INTERESTS IN SUBSIDIARIES

	The Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	153,424	–
Fair value of share options granted to employees of subsidiaries	2,533	–
	155,957	–
Amounts due from subsidiaries	417,879	–
	573,836	–

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment but are not expected to be recovered within one year of the balance sheet date.

The following list contains the particular of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Place of operation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
Alfreda International Company Limited	Macao 22 March 2007	Macao	–	100	MOP 50,000	Retailing of fashion accessories
Artini International Company Limited	Hong Kong 16 July 2003	Hong Kong	–	100	300,000 shares of HK$1 each	Retailing of fashion accessories
Artini Sales Company Limited	Hong Kong 9 June 1992	Hong Kong	–	100	10,000 shares of HK$1 each	Trading of fashion accessories
Artist Empire Gifts & Premium Mfy. Limited	Hong Kong 11 February 2004	Hong Kong	–	100	10,000 shares of HK$1 each	Trading of fashion accessories
Artist Empire International Group Company Limited	Hong Kong 10 September 1996	Hong Kong	–	100	10,000 shares of HK$1 each	Investment holding
Artist Empire Jewellery Enterprise Company Limited	Hong Kong 2 April 2005	Hong Kong	–	100	10,000 shares of HK$1 each	Trading of fashion accessories

(Expressed in Hong Kong dollars)

16 INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ establishment	Place of operation	Percentage of equity attributable to the Company		Issued and fully paid-up/ registered capital	Principal activities
			Direct	Indirect		
Artist Empire Jewellery Mfy. Limited	Hong Kong 8 September 2006	Hong Kong	–	100	100 shares of HK$1 each	Trading of fashion accessories
Artist Empire Silver Jewellery Mfy. Limited	Hong Kong 7 January 2004	Hong Kong	–	100	10,000 shares of HK$1 each	Trading of fashion accessories
Artist Empire (Hai Feng) Jewellery Mfy. Limited *(note)*	PRC 28 March 2002	PRC	–	100	HK$97,600,000	Manufacturing and sale of fashion accessories
Artist Star International Development Limited	BVI 7 December 2004	Hong Kong	100	–	1,000 shares of US$1 each	Investment holding
Artplus Investment Limited	Hong Kong 9 June 1992	Hong Kong	–	100	10,000 shares of HK$1 each	Trading of fashion accessories
Arts Empire Macao Commercial Offshore Limited	Macao 14 January 2005	Macao	–	100	MOP 200,000	Trading of fashion accessories and related raw materials
Bo-Wealth (Shenzhen) Trading Co. Ltd. *(note)*	PRC 19 October 2006	PRC	–	100	HK$1,500,000	Trading of fashion accessories
Elili Int'l Company Limited	Hong Kong 19 July 2006	Hong Kong	–	100	100 shares of HK$1 each	Trading of fashion accessories
Gain Trade Enterprise Limited	Hong Kong 15 October 2004	Hong Kong	–	100	100 shares of HK$1 each	Investment holding
Gentleman Investments Limited	Hong Kong 20 January 1993	Hong Kong	–	100	10,000 shares of HK$1 each	Investment holding
Ho Easy Limited	BVI 3 May 2004	Hong Kong	–	100	1 share of US$1	Investment holding

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

16 INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ establishment	Place of operation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
Instar International Company Limited	BVI 25 November 2004	Hong Kong	–	100	100 shares of US$1 each	Investment holding
JCM Holding Limited	BVI 7 December 2004	Hong Kong	–	100	500 shares of US$1 each	Investment holding
Keon Company Limited	Hong Kong 27 April 2005	Hong Kong	–	100	10,000 shares of HK$1 each	Provision of logistics services
King Erich International Development Limited	BVI 7 December 2004	Hong Kong	–	100	300 shares of US$1 each	Investment holding
King Land Limited	Hong Kong 11 November 2008	Hong Kong	–	100	100 shares of HK$1 each	Not yet commence operation
Q'ggle Company Limited	Hong Kong 19 July 2006	Hong Kong	–	100	100 shares of HK$1 each	Retailing of fashion accessories
Riccardo International Trading Limited	BVI 7 December 2004	Hong Kong	–	100	700 shares of of US$1 each	Investment holding
Shenzhen Artini Fashion Accessories Co., Ltd. *(note)*	PRC 6 June 2006	PRC	–	100	HK$200,000,000	Retailing of fashion accessories
Shop Front Trading Limited	BVI 20 December 2000	Hong Kong	–	100	100 shares of of US$1 each	Provision of product design services
TCK Company Limited	BVI 25 November 2004	Hong Kong	–	100	100 shares of of US$1 each	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.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**9,907**	13,758
Work in progress	**7,482**	14,416
Finished goods	**38,938**	28,317
	56,327	56,491

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount of inventories sold	**321,730**	220,313
Write down of inventories	**4,763**	–
	326,493	220,313

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors	**37,066**	67,985	**–**	–
Less: Allowance for doubtful debts *(note 18(b))*	**(2,960)**	(591)	**–**	–
	34,106	67,394	**–**	–
Deposits, prepayments and other receivables	**23,850**	30,378	**395**	9,036
Amounts due from related parties *(note 32(a)(ii))*	**–**	155	**–**	–
Amount due from a director *(note 19)*	**–**	55,373	**–**	–
	57,956	153,300	**395**	9,036

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

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

18 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group 2009 HK$'000	2008 HK$'000
Current	**24,874**	51,735
Less than 3 months past due	**8,306**	15,659
3 to 6 months past due	**811**	–
Over 6 months past due	**115**	–
Amounts past due	**9,232**	15,659
	34,106	67,394

Trade debtors are due within 30 days to 90 days from the date of billing.

Further details on the Group's credit policy are set out in note 28(a).

(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(h)(i)).

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

	The Group 2009 HK$'000	2008 HK$'000
At 1 April	**591**	1,063
Impairment loss recognised	**17,490**	1,021
Uncollectible amounts written off	**(15,121)**	(1,493)
At 31 March	**2,960**	591

(Expressed in Hong Kong dollars)

18 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade debtors (continued)

At 31 March 2009, 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 ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are set out in note 18(a).

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.

19 AMOUNT DUE FROM A DIRECTOR

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

Name of borrower	Tse Chiu Kwan
Terms of the loan	
– duration and repayment terms	Repayable on demand
– interest rate	None
– security	None
Balance of the loan	
– at 1 April 2007	HK$70,506,000
– at 31 March 2008 and 1 April 2008	HK$55,373,000
– at 31 March 2009	HK$Nil
Maximum balance outstanding	
– during the year ended 31 March 2008	HK$70,506,000
– during the year ended 31 March 2009	HK$55,373,000

There was no impairment loss provided on the principal amount of the loan at 31 March 2008 and 2007. The outstanding balance at 31 March 2008 was recovered in full in April 2008.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits with banks and other financial institution	**51,597**	–	**–**	–
Cash at bank and in hand	**226,300**	59,356	**30,267**	–
Cash and cash equivalents in the balance sheets	**277,897**	59,356	**30,267**	–
Bank overdrafts *(note 22)*	**–**	(18,522)		
Cash and cash equivalents in the consolidated cash flow statement	**277,897**	40,834		

Included in cash and cash equivalents in the consolidated balance sheet of the Group were amounts denominated in Renminbi of approximately RMB93,472,000 (2008: RMB20,770,000). 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.

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors	**6,567**	7,069	**–**	–
Bills payable	**–**	6,486	**–**	–
Receipts in advance	**11,929**	10,542	**–**	–
VAT and other tax payable	**3,497**	5,678	**–**	–
Accrued charges and other payables	**27,401**	25,473	1,028	1,373
Amounts due to subsidiaries	**–**	–	2,188	–
Amounts due to related parties *(note 32(a)(ii))*	**107**	8,244	–	9,168
	49,501	63,492	3,216	10,541

All of the trade and other payables are expected to be settled within one year. Receipts in advance are expected to be recognised as income within one year.

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

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

21 TRADE AND OTHER PAYABLES (continued)

Ageing analysis

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

	The Group	
	2009	2008
	HK$'000	HK$'000
By date of invoice:		
Within 3 months	5,718	13,269
More than 3 months but within 6 months	–	–
More than 6 months but within 1 year	541	286
Over 1 year	308	–
	6,567	13,555

22 BANK LOANS AND OVERDRAFTS

At 31 March 2009, all bank loans and overdrafts of the Group were denominated in Hong Kong dollars, which carried interest at the prime rate minus margin. Interest rates charged for the year ended 31 March 2009 range from 2.35% to 5.25% (2008: 2.60% to 7.75%) per annum and the bank loans and overdrafts were repayable as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Within 1 year or on demand	420	114,142
After 1 year but within 2 years	–	5,541
After 2 years but within 5 years	–	11,249
After 5 years	–	9,637
	–	26,427
	420	140,569

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

22 BANK LOANS AND OVERDRAFTS (continued)

At 31 March 2009, the bank loans and overdrafts were secured as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Secured bank overdrafts *(note 20)*	**–**	18,522
Secured bank loans	**420**	122,047
	420	140,569

At 31 March 2009, the banking facilities of the Group were secured by mortgages over certain of its properties with an aggregate carrying value of HK$12,552,000 (2008: HK$13,237,000) (note 14(d)) and cross corporate guarantee given by the Group. At the balance sheet date, banking facilities available to the Group amounted to HK$89,346,000 (2008: HK$182,500,000), which were utilised by the Group to the extent of HK$1,755,000 (2008: HK$147,054,000).

23 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2009, the Group had obligations under finance leases repayable as follows:

	The Group			
	2009		2008	
	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	**181**	**184**	345	371
After 1 year but within 2 years	**–**	**–**	181	184
	181	**184**	526	555
Less: total future interest expenses		**(3)**		(29)
Present value of lease obligations		**181**		526

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 14(b)).

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

24 EMPLOYEE RETIREMENT BENEFITS

The Group 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 employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the Company's subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the government of the respective jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect of the retirement benefits schemes is to make the specified contributions.

During the year, the Group made retirement benefits scheme contributions totalling HK$8,977,000 (2008: HK$6,756,000). At the balance sheet date, there are no forfeited contributions.

25 EQUITY SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES

The Company has a Pre-IPO Share Option Scheme and a Share Option Scheme which were adopted on 23 April 2008 whereby the directors are authorised, at their discretion, to invite directors (including executive, non-executive and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers for the Group, to take up options at nominal consideration to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the schemes shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the schemes, unless the Company obtains a fresh approval from its shareholders. Notwithstanding this, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the schemes shall not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to any individual in any 12-month period shall not exceed 1% of the total number of shares in issue at any point in time, without prior approval from the Company's shareholders. Options granted to any individual who is a substantial shareholder of the Company or independent non-executive director or any of their respective associates in the 12-month period up to and including date of such grant in excess of 0.1% of the Company's share capital at the date of grant or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted under the Pre-IPO Share Option Scheme must be taken up within 28 days of the date of grant upon payment of HK$1 per grant of option. Options may generally be exercised from 16 May 2008 to 15 May 2011, subject to vesting periods as stated in the Pre-IPO Share Option Scheme. The subscription price for shares will be 85% of the offer price per share at the initial public offering of the Company.

Options granted under the Share Option Scheme must be taken up within 28 days of the date of grant upon payment of HK$1 per grant of option. Options may generally be exercised at any time during the period after the options have been granted, such period to expire not later than 10 years after the date of the grant of the options. The subscription price for shares will not be less than the higher of (i) the closing price of the Company's shares on the date of options granted; (ii) the average closing price of the Company's shares for the 5 business days immediately preceding the date of options granted; and (iii) the nominal value of the Company's share. There is no minimum period for which an option must be held before it can be exercised.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

25 EQUITY-SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES (continued)

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Exercise price HK$	Exercise period
Options granted to directors on:			
– 2 May 2008	2,115,000	1.887	16 May 2008 to 15 May 2009
	2,115,000	1.887	16 May 2009 to 15 May 2010
	2,820,000	1.887	16 May 2010 to 15 May 2011
Options granted to employees on:			
– 2 May 2008	885,000	1.887	16 May 2008 to 15 May 2009
	885,000	1.887	16 May 2009 to 15 May 2010
	1,180,000	1.887	16 May 2010 to 15 May 2011
– 27 March 2009	5,500,000	0.371	27 March 2009 to 26 March 2019
Total share options	15,500,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2009 Weighted average exercise price HK$	2009 Number of options
Outstanding at the beginning of the year	–	–
Granted during the year	1.349	15,500,000
Forfeited during the year	1.887	(1,550,000)
Outstanding at the end of the year	1.289	13,950,000
Exercisable at the end of the year	0.849	8,035,000

The options outstanding at 31 March 2009 had an exercise price of HK$1.887 or HK$0.371 and a weighted average remaining contractual life of 4.7 years.

Subsequent to the balance sheet date and up to the date of these financial statements, 4,900,000 share options under the Share Option Scheme were exercised.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

25 EQUITY-SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES (continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the binomial option pricing model. The inputs into the models were as follows:

Fair value of share options and assumptions

	Pre-IPO Share Option Scheme	Share Option Scheme
Fair value per share option at measurement date	HK$0.824	HK$0.234
Share price	HK$2.109	HK$0.371
Exercise price	HK$1.887	HK$0.371
Expected volatility	50.05%	52.72%
Expected option period	3 years	10 years
Risk-free rate (based on Hong Kong Exchange Fund Notes)	1.852%	1.927%
Expected dividend yield	0%	0%

The expected volatility was based on the historical volatility of the share prices of the comparable companies. The expected life used in the model was adjusted, based on management best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The option pricing models require the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group 2009 HK$'000	2008 HK$'000
Provision for the year		
– Hong Kong Profits Tax	**276**	1,945
– PRC corporate income tax	**6,471**	17,114
Tax paid	**(8,178)**	(10,780)
	(1,431)	8,279
Balance of provision relating to prior years	**1,037**	6,118
Net tax (recoverable)/payable	**(394)**	14,397
Representing:		
Tax recoverable	**(1,477)**	(721)
Tax payable	**1,083**	15,118
	(394)	14,397

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

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

	The Group					
	Unutilised tax losses	Depreciation allowances in excess of the related depreciation	Unrealised gains/losses on inventories	Impairment loss for bad and doubtful debts	Undistributed earnings of PRC subsidiaries *(note 7(a)(vi))*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax arising from:						
At 1 April 2007	(1,439)	302	616	(116)	–	(637)
(Credited)/charged to profit or loss	(2,716)	(39)	–	113	–	(2,642)
At 31 March 2008	(4,155)	263	616	(3)	–	(3,279)
At 1 April 2008	(4,155)	263	616	(3)	–	(3,279)
(Credited)/charged to profit or loss	(1,509)	(622)	(3,499)	(575)	1,368	(4,837)
At 31 March 2009	**(5,664)**	**(359)**	**(2,883)**	**(578)**	**1,368**	**(8,116)**

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

	The Group	
	2009	2008
	HK$'000	HK$'000
Representing:		
Net deferred tax assets recognised on the balance sheet	**(10,146)**	(4,294)
Net deferred tax liabilities recognised on the balance sheet	**2,030**	1,015
	(8,116)	(3,279)

(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$96,401,000 (2008: HK$2,657,000) 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.

(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. Deferred tax liabilities of HK$627,000 were not recognised in respect of the undistributed 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. There were no such temporary differences at 31 March 2009.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

27 CAPITAL AND RESERVES

(a) Reserves

The Company

	Note	Share capital HK$'000	Share premium (note 27(c)(i)) HK$'000	Contributed surplus (note 27(c)(ii)) HK$'000	Employee share-based capital reserve (note 27(c)(vi)) HK$'000	Accumulated losses HK$'000	Total HK$'000
		Attributable to equity shareholders of the Company					
Shares issued on incorporation		–	–	–	–	–	–
Net loss for the year		–	–	–	–	(1,505)	(1,505)
At 31 March 2008		–	–	–	–	(1,505)	(1,505)
At 1 April 2008		–	–	–	–	(1,505)	(1,505)
Issue of shares upon Reorganisation		20,000	–	133,424	–	–	153,424
Capitalisation issue		55,000	(55,000)	–	–	–	–
Shares issued under the placing and global offering		25,000	530,000	–	–	–	555,000
Share issuance costs		–	(71,819)	–	–	–	(71,819)
Share options granted		–	–	–	6,869	–	6,869
Repurchases of own shares							
– par value paid		(776)	–	–	–	–	(776)
– premium paid		–	(2,990)	–	–	–	(2,990)
Net profit for the year		–	–	–	–	3,079	3,079
Dividend paid	*11*	–	–	–	–	(40,000)	(40,000)
At 31 March 2009		**99,224**	**400,191**	**133,424**	**6,869**	**(38,426)**	**601,282**

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

27 CAPITAL AND RESERVES (continued)

(b) Share capital

(i) Authorised and issued share capital

	2009		2008	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**3,000,000**	**300,000**	1,000	100
Issued and fully paid:				
At the beginning of the year	**–**	**–**	–	–
Shares issued on incorporation	**–**	**–**	–	–
Shares issued under the placing and global offering	**250,000**	**25,000**	–	–
Capitalisation issue	**550,000**	**55,000**	–	–
Issue of shares	**200,000**	**20,000**	–	–
Shares repurchased	**(7,762)**	**(776)**	–	–
At the end of the year	**992,238**	**99,224**	–	–

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.

No share options were exercised during the year ended 31 March 2009.

For the purpose of these financial statements, share capital in the consolidated balance sheet as at 31 March 2008 represented the aggregate amount of the 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 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 the share capital were consolidated into 1 share of HK$0.10 each. 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 shares were in issue. Such 100 shares were subsequently paid up pursuant to the Reorganisation as detailed in note 1(b).

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

27 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

(i) Authorised and issued share capital (continued)

On 23 April 2008, the Company issued 199,999,900 shares to acquire the entire issued share capital of Artist Star International Development Limited 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$71,819,000, were credited to the share premium account of the Company.

(ii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Date of repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
14 October 2008	1,080,000	0.480	0.400	495
15 October 2008	304,000	0.455	0.435	135
17 October 2008	1,250,000	0.410	0.380	496
20 October 2008	429,000	0.400	0.385	169
21 October 2008	438,000	0.425	0.405	182
22 October 2008	264,000	0.425	0.395	111
24 October 2008	437,000	0.430	0.405	182
07 January 2009	247,000	0.580	0.580	143
09 January 2009	2,331,000	0.590	0.520	1,315
12 January 2009	430,000	0.550	0.530	234
29 January 2009	18,000	0.460	0.460	8
30 January 2009	534,000	0.550	0.500	283
	7,762,000			3,753

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

27 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

(ii) Purchase of own shares (continued)

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid and the expenses directly attributable to the repurchase were charged against share premium in accordance with the Bermuda Companies Act 1981 on the repurchase of the shares.

Subsequent to the balance sheet date and up to the date of these consolidated financial statements, there were no further repurchase of its own shares by the Company.

(iii) Terms of unexpired and unexercised share options as at 31 March 2009

Exercised period	Exercise price HK$	2009 Number of options
16 May 2008 to 15 May 2009	1.887	2,535,000
16 May 2009 to 15 May 2010	1.887	2,535,000
16 May 2010 to 15 May 2011	1.887	3,380,000
27 March 2009 to 26 March 2019	0.371	5,500,000
		13,950,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 25 to the financial statements.

(c) Nature and purpose of reserves

(i) Share premium

Under the Bye-laws of the Company, share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Contributed surplus

The contributed surplus of the Company represented the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the Reorganisation. Under the Bermuda Companies Act 1981, the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; and (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

27 CAPITAL AND RESERVES (continued)

(c) Nature and purpose of reserves (continued)

(iii) Other reserve

The other reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries comprising the Group prior to the Reorganisation.

(iv) 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).

(v) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were 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 were 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 years' 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 the subsidiary's 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 holders.

27 CAPITAL AND RESERVES (continued)

(c) Nature and purpose of reserves (continued)

(vi) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(n)(ii).

(vii) Legal reserves

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 holders.

(d) Distributable reserve

At 31 March 2009, the aggregate amount of reserve available for distribution to equity shareholders of the Company was HK$133,424,000 (2008: HK$Nil).

(e) Capital management

The Group's primary objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits of other stakeholders, 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 its capital structure on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratio of the Group was 10% at 31 March 2009 (2008: 59%). The Group had time deposits and cash balances as at 31 March 2009 amounting to HK$277,897,000 (2008: HK$59,356,000).

Some of the Group's banking facilities are subject to capital requirements imposed by certain creditor banks. During the year ended 31 March 2009, the Group did not comply with the covenants in respect of capital requirements imposed by a creditor bank. Upon discovery of the breach, the directors of the Company has renegotiated with the related creditor bank and obtained a waiver after the year end.

28 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.

At the balance sheet date, the Group has a certain concentration of credit risk as 6% (2008: 7%) and 22% (2008: 21%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

Credit risks and exposure are closely controlled and monitored on an on-going basis by management of the Group. Management set appropriate credit limits and terms after credit evaluations have been performed on customers on a case by case basis. Overdue status of customers is reviewed 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.

28 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

The Group

	2009					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Trade and other payables	**49,501**	**49,501**	**49,501**	**–**	**–**	**–**
Bank loans	**420**	**426**	**426**	**–**	**–**	**–**
Finance lease liabilities	**181**	**184**	**184**	**–**	**–**	**–**
	50,102	**50,111**	**50,111**	**–**	**–**	**–**

	2008					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Trade and other payables	63,492	63,492	63,492	–	–	–
Bank overdrafts	18,522	18,522	18,522	–	–	–
Bank loans	122,047	123,038	96,397	5,586	11,340	9,715
Finance lease liabilities	526	555	371	184	–	–
	204,587	205,607	178,782	5,770	11,340	9,715

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

28 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its net fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total interest-bearing borrowings at the balance sheet date.

	The Group			
	2009		2008	
	Effective interest rate %	HK$'000	Effective interest rate %	HK$'000
Fixed rate borrowings:				
– Obligations under finance leases	3.59	181	3.59	526
Variable rate borrowings:				
– Bank overdrafts	–	–	7.62	18,522
– Bank loans	2.44	420	5.42	122,047
		420		140,569
Total interest-bearing borrowings		601		141,095

(ii) Sensitivity analysis

Sensitivity analysis on interest rate risk at 31 March 2009 is not presented because the total interest-bearing borrowings at 31 March 2009 is insignificant.

At 31 March 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$1,405,000.

The sensitivity analysis above indicated the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date.

28 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. 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.

(i) Exposure to currency risk

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 operations to which they relate.

	The Group					
	2009			2008		
	US$'000	RMB'000	HK$'000	US$'000	RMB'000	HK$'000
Cash and cash equivalents	3,856	1,257	98,674	1,590	–	–
Trade and other receivables	2,027	–	–	2,784	–	–
Trade and other payables	(925)	–	–	(247)	–	–
Net exposure arising from recognised assets and liabilities	4,958	1,257	98,674	4,127	–	–

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

28 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially uneffected by any changes in movement in value of the United States dollar against other currencies.

	The Group					
	2009			2008		
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses HK$'000	Effect on other components of equity HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000	Effect on other components of equity HK$'000
Renminbi	5%	(71)	–	5%	–	–
	(5)%	71	–	(5)%	–	–
Hong Kong Dollars	5%	4,933	–	5%	–	–
	(5)%	(4,933)	–	(5)%	–	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous affects on each of the Group's entities' loss after tax and equity measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure these financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(e) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 March 2009 and 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.

28 FINANCIAL INSTRUMENTS (continued)

(f) 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 28(e) 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.

29 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2008, dividends of HK$69,000,000 were paid by Artist Empire Gifts & Premium Mfy. Limited, Gentleman Investments Limited, Artist Empire Jewellery Enterprise Company Limited, TCK Company Limited and Arts Empire Macao Commercial Offshore Limited to their then shareholders before they became subsidiaries of the Company pursuant to the Reorganisation (note 1(b)). Such dividends of approximately HK$66,728,000 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.

30 COMMITMENTS

(a) Capital commitments outstanding at 31 March 2009 not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Contracted for	**1,599**	668
Authorised but not contracted for	**6,804**	–
	8,403	668

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

30 COMMITMENTS (continued)

(b) At 31 March 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2009		2008	
	Properties HK$'000	Billboards HK$'000	Properties HK$'000	Billboards HK$'000
Within 1 year	63,228	10,367	38,954	2,268
After 1 year but within 5 years	60,919	–	34,129	–
	124,147	10,367	73,083	2,268

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 minimum guaranteed rental and sales level based rental. The above operating lease commitments include commitments for fixed rental 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.

31 CONTINGENT LIABILITIES

Financial guarantees issued

As at the balance sheet date, the Company has issued guarantees to certain banks in respect of banking facilities granted to certain wholly owned subsidiaries which remain in force so long as the subsidiaries have drawn down under the banking facilities.

Certain cross guarantee arrangements issued by the Company and certain of its wholly owned subsidiaries to certain banks in respect of banking facilities granted to the Group which remain in force so long as the Group has drawn down under the banking facilities. Under each of these guarantees, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the above guarantees. The maximum liability of the Company at the balance sheet date under the sole guarantee by the Company is the aggregate amount of the facilities drawn down by the subsidiaries of HK$420,000. The maximum liability of the Company at the balance sheet date under the cross guarantee is the aggregate amount of the facilities drawn down by all the subsidiaries that are covered by the cross guarantee, being HK$1,335,000.

32 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Significant related party transactions

(i) Particulars of significant transactions between the Group and a related party during the year are as follows:

	Note	**2009 HK$'000**	2008 HK$'000
Rental paid to Gain Win Holdings Limited	*(i)*	**–**	600

Note:

(i) Rental expenses paid to Gain Win Holdings Limited, a company owned by two directors of the Company, for the directors' quarters. The rental was determined based on the relevant agreements and was mutually agreed by both parties. No rental expenses were paid to Gain Win Holdings Limited for the year ended 31 March 2009.

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

	2009 HK$'000	2008 HK$'000
Amount due from:		
– Artini Jewelry Mfg. Limited	**–**	155
– Directors	**–**	55,373
Amount due to:		
– Artini Jewelry Mfg. Limited	**89**	8,244
– Gain Win Holdings Limited	**18**	–

The balances with related parties are unsecured, interest-free and repayable on demand. The amounts due from related parties and directors as at 31 March 2008 were settled before the listing of the Company's shares on the Stock Exchange in May 2008.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) 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:

	2009 HK$'000	2008 HK$'000
Short-term employee benefits	**10,484**	7,892
Post-employment benefits	**82**	58
Equity compensation benefits	**5,516**	–
	16,082	7,950

Total remuneration is included in "staff costs" (see note 6(b)).

33 NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent to the balance sheet date and up to the date of these financial statements, 4,900,000 share options under the Share Option Scheme were exercised.

34 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 March 2009 to be Fully Gain Worldwide Limited, which was incorporated in the BVI.

35 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 25 and 28 contain information about the assumptions and their risk factors relating to fair value of certain equity-settled share-based financial instruments and other financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of fixed assets and intangible assets

The Group assesses annually whether fixed assets and intangible assets have any indication of impairment in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of the assets would be determined by reference to value in use and net selling price. Value in use is determined using the discounted cash flow method. Owing to inherent risk associated with estimations in the timing and magnitude of the future cash flows and net selling prices, the estimated recoverable amount of the assets may be different from its actual recoverable amount and profit or loss could be affected by accuracy of the estimations.

(b) Impairment of trade and other receivables

If circumstances indicate that the carrying amount of trade and other receivables may not be recoverable, the assets may be considered impaired and an impairment loss may be recognised. The carrying amounts of trade and other receivables are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. The recoverable amount of trade and other receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. Owing to inherent risk associated with estimations of the recoverable amount, the actual recoverable amount of the receivables may be different from the estimations and profit or loss could be affected by the accuracy of the estimations.

(c) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analyses, historical consumption trends and management experience and judgement. Based on this review, write down of inventories would be made when the carrying amounts of inventories decline below their estimated net realisable value. Owing to changes in market trend, actual sales may be different from estimation and profit or loss could be affected by the accuracy of this estimation.

(d) Provision for income tax

Provision for income tax is made based on the taxable income for the year as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretations of the relevant tax rules and regulations. The amount of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

Notes to the Financial Statements (Cont'd)

(Expressed in Hong Kong dollars)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 MARCH 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HK(IFRIC) 13, *Customer loyalty programmes*	1 July 2008
HKAS 1 (revised), *Presentation of financial statements*	1 January 2009
HKAS 23 (revised), *Borrowing costs*	1 January 2009
HKFRS 8, *Operating segments*	1 January 2009