

ARTINI CHINA CO. LTD.

雅天妮中國有限公司

(Incorporated in Bermuda with limited liability)



Interim Report 2013-14

ARTINI

雅天妮

Stock Code: 789

ARTINI is the pioneer of fashion accessories and gift and premium items, leading the highly segmented market.



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tse Hoi Chau (*Chairman & Chief Executive*)
Ms. Yip Ying Kam
(*Vice Chairman & Chief Operational Officer*)
Mr. Lin Shao Hua (appointed on 28 June 2013)

Independent Non-executive Directors

Mr. Lau Fai Lawrence
Mr. Lau Yiu Kit
Mr. Chan Shu Hung Joseph
Mr. Li Youhuan (appointed on 1 October 2013)

AUDIT COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)
Mr. Lau Yiu Kit
Mr. Chan Shu Hung Joseph
Mr. Li Youhuan (appointed on 1 October 2013)

REMUNERATION COMMITTEE

Mr. Chan Shu Hung Joseph (*Chairman*)
Mr. Tse Hoi Chau
Mr. Lau Fai Lawrence
Mr. Lau Yiu Kit
Mr. Li Youhuan (appointed on 1 October 2013)

NOMINATION COMMITTEE

Mr. Lau Fai Lawrence (*Chairman*)
Mr. Tse Hoi Chau
Mr. Lau Yiu Kit
Mr. Chan Shu Hung Joseph
Mr. Li Youhuan (appointed on 1 October 2013)

COMPANY SECRETARY

Mr. Cheung Yuk Chuen, *FCCA, HKICPA*
(resigned on 3 December 2013)
Ms. Ho Wing Yan, *ACIS, ACS(PE)*
(appointed on 3 December 2013)

AUTHORISED REPRESENTATIVES

Ms. Yip Ying Kam
Mr. Cheung Yuk Chuen, *FCCA, HKICPA*
(resigned on 3 December 2013)
Ms. Ho Wing Yan, *ACIS, ACS(PE)*
(appointed on 3 December 2013)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation
Limited

LEGAL ADVISERS

Reed Smith Richards Butler
Guangdong Zhiming Lawfirm
Conyers Dill & Pearman
Gonçalves Pereira, Rato, Ling, Vong & Cunha
— Avenida da Amizade

AUDITOR

Mazars CPA Limited

COMPANY'S WEBSITE

www.artini-china.com

STOCK CODE

789

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 September 2013 (the “Period”), the Group recorded a total turnover of approximately HK\$115,015,000 (for the six months ended 30 September 2012: HK\$105,732,000), representing an increase of 8.8% as compared with the same period last year. Gross profit was HK\$27,339,000 (for the six months ended 30 September 2012: HK\$50,513,000), representing a decrease of 45.9% as compared with the same period last year. During the Period, loss attributable to the owners of the Company further widened to HK\$33,354,000 (for the six months ended 30 September 2012: loss of HK\$18,868,000). The increase of loss for the Period is attributable to (i) poor performance and loss incurred by the Group’s retailing and distribution operations; and (ii) certain provisions made for plant and machinery, inventories and trade receivables. Loss per share was HK\$0.027 (for the six months ended 30 September 2012: loss of HK\$0.015).

RETAIL BUSINESS

In the face of global economic uncertainties, the consumer markets in Hong Kong and the Mainland China were both affected during the Period, resulting in weaker consumer sentiment.

During the Period, the Group’s retail business was affected by the weakened consumer sentiment caused by external economic uncertainties and the fierce market competition. To combat such impact, the Group strategically reorganised its retail network through integrating internal resources and adopting stringent cost control measures. As at 30 September 2013, the Group had a total of approximately 11 retail points (as at 30 September 2012: 30 retail points) throughout the PRC and Hong Kong. During the Period, the retail business recorded a turnover of HK\$19,937,000 (for the six months ended 30 September 2012: HK\$22,842,000), accounting for approximately 17.3% of the Group’s total turnover and representing a decrease of 12.7% as compared with the same period last year.

During the Period, the performance of the retailing and distribution business remained unsatisfactory and the loss from the retailing and distribution segment was approximately HK\$16,535,000, compared with the loss for the previous period of approximately HK\$18,624,000. In view of the poor operating environment, the directors of the Company reviewed the recoverable amounts on certain assets of the retailing and distribution operations and recognised impairment losses on inventories of approximately HK\$2,196,000 (for the six months ended 30 September 2012: Nil) and trade receivables of approximately HK\$496,000 (for the six months ended 30 September 2012: Nil).

As at 30 September 2013, the number of VIP customers of “Artini” was 115,680, representing an increase of 2% over the same period last year. The Group believed that loyal customers contributed a key portion of the Group’s revenue. By analyzing the shopping habits of our VIP customers and thereby understanding their preferences, the Group has consistently developed new series of products and strategically organised promotional activities to raise brand awareness among its existing and potential customers.

CONCURRENT DESIGN MANUFACTURING (“CDM”) BUSINESS

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

During the Period, Europe, one of our principal regions of operations, faced challenging economic environments, resulting in a drop in their demand for imports, which consequently led to the unsatisfactory performance of the Group’s CDM business.

Management Discussion and Analysis

During the Period, the export business was affected by the intense market competition in Hong Kong, the uncertain economic prospects in Europe, and the consequent drop in demand for imports. The Group's CDM business recorded a turnover of HK\$95,078,000 (for the six months ended 30 September 2012: HK\$82,890,000), representing a 14.7% increase from the same period of last year and accounting for 82.7% of the total turnover.

The performance of the CDM business in the Period also remained unsatisfactory and the profit of the CDM segment was approximately HK\$1,174,000, compared with the profit for the previous period of approximately HK\$24,091,000. In view of the uncertain economic prospects, the directors of the Company reviewed the recoverable amounts on certain assets and recognised impairment losses on inventories of approximately HK\$2,721,000 (for the six months ended 30 September 2012: Nil), trade receivables of approximately HK\$1,250,000 (for the six months ended 30 September 2012: Nil) and plant and machinery of approximately HK\$3,745,000 (for the six months ended 30 September 2012: Nil).

FINANCIAL REVIEW

For the Period, the Group recorded a total turnover of approximately HK\$115,015,000, representing an increase of 8.8% as compared with the same period in 2012. The increase was mainly due to the restructuring of the Group's business and the retail points. During the Period, the turnover of the retailing and distribution and CDM businesses were HK\$19,937,000 and HK\$95,078,000 respectively, accounting for 17.3% and 82.7% of the total turnover of the Group. The Group's turnover was mainly derived from the European, PRC (including Hong Kong), American and Russian markets, which accounted for 34.2%, 35.2%, 17.8% and 6.1% of the total turnover respectively, while the percentages for the same period last year were 38.7%, 21.4%, 18.8% and 8.7% respectively.

During the Period, gross profit decreased by 45.9% to HK\$27,339,000. Gross profit margin decreased to 23.8% (for the six months ended 30 September 2012: 47.8%). The cost of sales for the Period increased by 58.8% from approximately HK\$55,219,000 for the six months ended 30 September 2012 to HK\$87,676,000. Due to changes in customer mix, the increase in the cost of raw materials and stringent cost control, the overall gross profit margin was decreased.

Selling and distribution costs for the Period decreased by 34.5% to HK\$29,381,000 as compared to HK\$44,833,000 for the corresponding period in 2012. This was mainly due to the gradual closure of stores with high rental or low profitability, and diverting distribution channels towards the distributorship business model and online sales platforms.

The Group did not have any income tax for the six months ended 30 September 2013 (for the six months ended 30 September 2012: HK\$506,000).

Liquidity and Financial Resources

As at 30 September 2013, the bank loan of the Group amounted to HK\$13,284,000, which was denominated in Renminbi, secured by a pledge over a property with a carrying value of HK\$22,660,000 and repayable by 14 December 2013. As it was a loan containing a term that gave the bank an overriding right to demand repayment at any time without notice or with notice period of less than 12 months at its sole discretion, it was classified as a current liability even though the Directors did not expect that the bank would exercise its rights to demand repayment.

Apart from this bank loan, the Group also obtained general banking facilities which were secured by legal charges over certain of its properties with an aggregate carrying value of HK\$3,949,000 (31 March 2013: HK\$3,949,000) and cross corporate guarantee given by the Group. At the end of the Period, banking facilities available to the Group amounted to HK\$219,000 (31 March 2013: HK\$219,000), which were utilised by the Group to the extent of HK\$179,000 (31 March 2013: HK\$179,000).

As at 30 September 2013, the Group's obligations under finance leases amounted to HK\$439,000. 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 31.3% as at 30 September 2013 (31 March 2013: 30.7%). The Group had time deposits and cash balances as at 30 September 2013 amounted to HK\$14,874,000 (31 March 2013: HK\$52,456,000).

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

Dividend

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

Foreign Exchange Exposure

The main business activities of the Group take place in the PRC, the United States, Europe and Hong Kong with most transactions settled in Renminbi, United States dollars and Hong Kong dollars. Accordingly, the Board considers that the potential foreign exchange exposure of the Group is relatively limited. Moreover, the Group has not used any forward contracts or hedging products to hedge its interest rate or exchange rate risks during the Period. The management will, nonetheless, continue to monitor foreign currency risks and to learn more relevant information from financial institutions. During the Period, the Group recorded a net exchange gain of approximately HK\$1,862,000.

Significant Investments and Acquisitions

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

Capital Commitments

The Group did not have any capital commitments as at 30 September 2013 (31 March 2013: HK\$3,403,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 September 2013 (31 March 2013: Nil).

Human Resources

As at 30 September 2013, the Group had approximately 715 employees. During the Period, the total staff cost including directors' emoluments amounted to approximately HK\$24,053,495. To enhance the expertise, product knowledge, marketing skills and overall operational management skills of its employees, the Group organised regular training and

Management Discussion and Analysis

development courses for its employees, and provided them with a competitive remuneration package, including salary, allowance, insurance, commission and bonus. Meanwhile, in order to create a harmonious and family-like working atmosphere, the Group emphasizes on listening to employees and continually developing paths for staff promotion.

Investor Relations

The Group strongly believes that investor relations are important to a listed company. Maintaining relationships with investors and keeping them abreast of the latest corporate information and business development in a timely manner would enhance the transparency and corporate governance of the Group, thus strengthening its corporate position. Our investor relationship representatives will more actively participate in various investor-related activities.

PROSPECTS

For the brand business domain, the major brand “Artini” of the Group is undergoing the issues of packaging upgrade, brand restructuring to re-establish the retail business of the Company. The “Artini” brand will be re-positioned to be a light luxury category. The profile of upgrade includes brand strategy innovation, brand image restructuring, channel operation innovation, product materials structural adjustment and store image upgrade, etc. The existing retail stores have undergone restructuring before that, including internal resources integration, personnel and structure streamlining and cost reduction. Also, some underperforming stores had been closed strategically to reduce the operating costs.

A professional brand planning team was engaged to assist with the brand upgrade and the launch of new business model. The new starting point will be first designated at Guangzhou, Shenzhen and Hong Kong, and greater pertinence will be achieved through resources integration. The new business model will be operating on an O2O mode, which involves activating an e-commerce platform and closely integrating online and offline businesses. Real stores will be utilized to enhance the in-store experience, while promoting the convenient online sales.

Through consistently adopting the CRM plan and taking advantage of “WeChat”, the new mode of communication, the Group was able to increase its connection and interaction with customers, therefore attracting the customers to become members and further enhancing their loyalty.

During the Period, the Group still maintained its approach on income expansion and cost saving, reducing unnecessary expenditures and costs. Looking ahead, the management will devote more efforts to achieve the multi-channel development and the application of various business models for both retail and CDM businesses, so as to develop new customers and promote its business with integrating the use of modern electronic means. The upgraded brand “Artini” has used more advanced and diversified materials and supplies. Its overall design is composed of the environmental type of alloy, silver and K gold, with more sophisticated and excellent craftwork adopted, seeking to create refined and quality fashion accessories. Meanwhile, the brand will activate the full operation of e-commerce. On the one hand, the Group will use various channels to clear up its old stock; and on the other hand, it will employ multi-dimensional air-borne to surface means to promote and market its products.

Looking ahead, the operating environment of the Group is expected to remain challenging. Nevertheless, we are confident of the continued growth of the Group’s operation and business over the medium to long term. The Group will continue to streamline our existing market and sale networks and to conduct a detailed review on the current operation and business strategies of the Group, such as restructuring of the Group’s manufacturing facilities to enhance the leading position of the Group and lay a solid foundation for future development.

Corporate Governance and Other Information



CORPORATE GOVERNANCE

Corporate Governance Practice

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company has complied with the code provisions in the CG Code for the Period, except for the following deviation:

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

The Board considers that vesting the roles of chairman of the Board and chief executive of the Company in the same individual is beneficial to the business prospects and management of the Company. The Board will review the need of appointing suitable candidate to assume the role of chief executive if and when necessary.

Model Code for Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code for the Period.

Audit Committee

The audit committee of the Company (the “Audit Committee”) was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Audit Committee comprises four members, all are the independent non-executive Directors, namely Mr. Lau Fai Lawrence (Chairman), Mr. Lau Yiu Kit, Mr. Chan Shu Hung Joseph and Mr. Li Youhuan, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties and none of them is a former partner of the external auditors of the Company. The Audit Committee has reviewed the unaudited interim financial information and interim report for the Period.



Corporate Governance and Other Information

Remuneration Committee

The remuneration committee of the Company (the “Remuneration Committee”) was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises five members, namely Mr. Chan Shu Hung Joseph (Chairman), Mr. Lau Fai Lawrence, Mr. Lau Yiu Kit and Mr. Li Youhuan, the independent non-executive Directors and Mr. Tse Hoi Chau, an executive Director. The primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration of the Directors and senior management of the Company.

Nomination Committee

The nomination committee of the Company (the “Nomination Committee”) was established on 23 April 2008 with written terms of reference in compliance with the CG Code. The Nomination Committee comprises five members, namely Mr. Lau Fai Lawrence (Chairman), Mr. Lau Yiu Kit, Mr. Chan Shu Hung Joseph and Mr. Li Youhuan, the independent non-executive Directors and Mr. Tse Hoi Chau, an executive Director. The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy.

Purchase, Sale or Redemption of the Company’s Shares

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

Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures

As at 30 September 2013, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

Long positions in shares of the Company

Name of Directors	Company in which interests are disclosed	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted	Percentage of the issued share capital as at 30 September 2013
Tse Hoi Chau	The Company	Corporate interest	358,822,894 (Note 1)	—	29.00%
		Beneficial interest	7,412,000	—	0.59%
Yip Ying Kam	The Company	Corporate interest	185,586,006 (Note 2)	—	14.99%
		Beneficial interest	—	12,000,000 (Note 3)	0.97%

Notes:

- These shares are held by Walifax Investments Limited, which is wholly and beneficially owned by Mr. Tse Hoi Chau.
- These shares are held by Excellent Gain International Holdings Limited which is wholly and beneficially owned by Ms. Yip Ying Kam.
- These options were granted by the Company under the share option scheme (the "Share Option Scheme") adopted by the Company on 23 April 2008.

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

Corporate Governance and Other Information

Directors' Right to Acquire Shares

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

Share Option Scheme

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

Name of category	Date of grant of share options	Number of share options				Outstanding at 30.09.2013	Validity period of share options	Exercise price (HK\$)
		Outstanding at 01.04.2013	Granted during the Period	Exercised during the Period	Lapsed during the Period			
Director								
Yip Ying Kam	24.02.2012	12,000,000	—	—	—	12,000,000	24.02.2012–23.02.2018 (Note)	0.222
Total		12,000,000	—	—	—	12,000,000		

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

Substantial Shareholders' Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2013, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Long positions in shares of the Company

Name of shareholders	Capacity	Nature of issued ordinary shares/ underlying shares held	Percentage of the issued share capital as at 30 September 2013
Walifax Investments Limited (<i>Note 1</i>)	Beneficial interest	358,822,894	29.00%
Fully Gain Company Ltd. (<i>Note 2</i>)	Beneficial interest	175,679,100	14.20%
Excellent Gain International Holdings Limited (<i>Note 3</i>)	Beneficial interest	185,586,006	14.99%

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

Note 2: Fully Gain Company Ltd. is wholly and beneficially owned by Mr. Tse Chiu Kwan.

Note 3: Excellent Gain International Holdings Limited is wholly and beneficially owned by Ms. Yip Ying Kam.

Save as disclosed above, as at 30 September 2013, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Corporate Governance and Other Information

Disclosure of Information on Directors

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on Directors are as follows:

Mr. Tse Hoi Chau is entitled to a monthly salary of HK\$340,000 (on a 13-month basis and, in aggregate, HK\$4,420,000 per year); Ms. Yip Ying Kam is entitled to a monthly salary of HK\$225,000 (on a 13-month basis which equals to HK\$2,925,000 in aggregate per year); Mr. Lin Shao Hua is entitled to a monthly salary of HK\$55,000 (on a 13-month basis which equals to HK\$715,000 in aggregate per year), all of which were effective from 1 October 2013. The Directors' salaries were determined by reference to their role and responsibilities in the Company, prevailing market rate and their experience.

Mr. Lau Fai Lawrence, Mr. Lau Yiu Kit, Mr. Chan Shu Hung, Joseph and Mr. Li Youhuan are each entitled to director's fees of HK\$270,000 per annum, all of which were effective from 1 October 2013 and determined by reference to the prevailing market rate and time, effort and expertise of the independent non-executive Directors of the Company devoted to the Company's affairs.

Mr. Tse Hoi Chau is entitled to a monthly housing allowance of HK\$51,150 per month with effect from 1 October 2013.

By order of the Board
Artini China Co. Ltd.
Tse Hoi Chau
Executive Director

Hong Kong, 29 November 2013

Condensed Consolidated Income Statement

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

	Notes	For the six months ended 30 September	
		(unaudited)	
		2013 HK\$'000	2012 HK\$'000
Turnover	4	115,015	105,732
Cost of sales		(87,676)	(55,219)
Gross profit		27,339	50,513
Other revenue	5	643	1,842
Other net (losses) gains	6	(5,612)	(1,024)
Selling and distribution costs		(29,381)	(44,833)
Administrative expenses		(24,668)	(23,751)
Other operating expenses		(1,022)	(314)
Loss from operations		(32,701)	(17,567)
Finance costs	7	(653)	(808)
Loss before taxation	7	(33,354)	(18,375)
Income tax	8	—	(506)
Loss for the period		(33,354)	(18,881)
Attributable to:			
Owners of the Company		(33,354)	(18,868)
Non-controlling interests		—	(13)
Loss for the period		(33,354)	(18,881)
Loss per share (HK\$)	10		
Basic and diluted		(0.027)	(0.015)

The notes on pages 19 to 28 form part of this interim financial report.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

	For the six months ended 30 September	
	(unaudited)	
	2013 HK\$'000	2012 HK\$'000
Loss for the period	(33,354)	(18,881)
Other comprehensive income:		
Exchange differences on consolidation	1,328	(637)
Total comprehensive loss for the period, net of tax	(32,026)	(19,518)
Attributable to:		
Owners of the Company	(32,026)	(19,505)
Non-controlling interests	—	(13)
Total comprehensive loss for the period, net of tax	(32,026)	(19,518)

The notes on pages 19 to 28 form part of this interim financial report.

Condensed Consolidated Statement of Financial Position

As at 30 September 2013
(Expressed in Hong Kong dollars)

	<i>Notes</i>	As at 30 September 2013 (unaudited) HK\$'000	As at 31 March 2013 (audited) HK\$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	11	41,317	48,434
— Investment properties		17,724	17,558
— Interests in leasehold land held for own use under operating leases		8,628	8,729
Intangible assets		1,247	1,247
Rental deposits		1,369	1,254
Deferred tax assets		2,335	2,159
		72,620	79,381
Current assets			
Inventories		31,763	35,304
Trade and other receivables	12	55,170	51,075
Current tax recoverable		—	970
Cash and cash equivalents		14,874	52,456
		101,807	139,805
Current liabilities			
Trade and other payables	13	39,900	43,207
Bank loans		13,284	20,708
Obligations under finance leases		306	379
Current tax payable		546	2,328
		54,036	66,622
Net current assets		47,771	73,183
Total assets less current liabilities		120,391	152,564

Condensed Consolidated Statement of Financial Position

As at 30 September 2013
(Expressed in Hong Kong dollars)

	<i>Notes</i>	As at 30 September 2013 (unaudited) HK\$'000	As at 31 March 2013 (audited) HK\$'000
Non-current liabilities			
Obligations under finance leases		133	288
Deferred tax liabilities		433	425
		566	713
NET ASSETS		119,825	151,851
CAPITAL AND RESERVES			
Share capital	14	123,732	123,732
Reserves		(4,169)	27,857
Total capital and reserves attributable to owners of the Company		119,563	151,589
Non-controlling interests		262	262
TOTAL EQUITY		119,825	151,851

The notes on pages 19 to 28 form part of this interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2013 — unaudited
(Expressed in Hong Kong dollars)

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000	Share- based capital reserve HK\$'000	Legal reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2012	123,732	549,974	(19,615)	35,808	21,755	610	97	(452,681)	259,680	492	260,172
Changes in equity for the six months ended 30 September 2012:											
Total comprehensive loss for the period	—	—	—	(637)	—	—	—	(18,868)	(19,505)	(13)	(19,518)
Step-acquisition during the period	—	—	(665)	—	—	—	—	—	(665)	(210)	(875)
Balance at 30 September 2012	123,732	549,974	(20,280)	35,171	21,755	610	97	(471,549)	239,510	269	239,779
Balance at 1 April 2013	123,732	549,974	(20,183)	37,122	21,755	878	—	(561,689)	151,589	262	151,851
Changes in equity for the six months ended 30 September 2013:											
Total comprehensive loss for the period	—	—	—	1,328	—	—	—	(33,354)	(32,026)	—	(32,026)
Balance at 30 September 2013	123,732	549,974	(20,183)	38,450	21,755	878	—	(595,043)	119,563	262	119,825

The notes on pages 19 to 28 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

	For the six months ended 30 September	
	(unaudited)	
	2013 HK\$'000	2012 HK\$'000
Net cash used in operations	(25,799)	(21,593)
Tax paid	(812)	(824)
Net cash used in operating activities	(26,611)	(22,417)
Net cash (used in) generated from investing activities	(2,335)	4,190
Net cash used in financing activities	(8,305)	(6,665)
Net decrease in cash and cash equivalents	(37,251)	(24,892)
Cash and cash equivalents at 1 April	52,456	96,163
Effect of foreign exchange rate changes	(331)	(282)
Cash and cash equivalents at 30 September	14,874	70,989

The notes on pages 19 to 28 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND

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

2 BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012/2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013/2014 annual financial statements. Details of these changes in accounting policies are set out in note 3. This interim financial report should be read in conjunction with the 2012/2013 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the 2012/2013 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31 March 2013 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2013 are available from the Company's registered office.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 September 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2013. In the current interim period, the Group has applied, for the first time, certain new or revised standards, amendments and interpretations (the "New or Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 April 2013. The application of these New or Revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ¹
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ¹
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets ¹
Amendments to HKAS 39	Novation of derivatives and Continuation of hedge accounting ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKFRS 9	Financial Instruments ²
HK(IFRIC) — Interpretation 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 January 2015

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

4 SEGMENT REPORTING

The segment results for the six months ended 30 September 2013 and 2012 are presented below:

	Six months ended 30 September 2013 — unaudited					
	Retailing and distribution			CDM sales	Inter-segment elimination	Consolidated
	Mainland China	Hong Kong and Macao	Sub-total			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	13,743	6,194	19,937	95,078	—	115,015
Inter-segment revenue	—	—	—	7,047	(7,047)	—
Reportable segment revenue	13,743	6,194	19,937	102,125	(7,047)	115,015
Reportable segment profit/(loss)	(11,236)	(5,299)	(16,535)	1,174	—	(15,361)
Unallocated expenses						(17,993)
Loss for the period						(33,354)
	Six months ended 30 September 2012 — unaudited					
	Retailing and distribution			CDM sales	Inter-segment elimination	Consolidated
	Mainland China	Hong Kong and Macao	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	18,012	4,830	22,842	82,890	—	105,732
Inter-segment revenue	—	—	—	5,650	(5,650)	—
Reportable segment revenue	18,012	4,830	22,842	88,540	(5,650)	105,732
Reportable segment profit/(loss)	(12,376)	(6,248)	(18,624)	24,091	—	5,467
Unallocated expenses						(24,348)
Loss for the period						(18,881)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2013
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5 OTHER REVENUE

	For the six months ended 30 September (unaudited)	
	2013 HK\$'000	2012 HK\$'000
Services income	—	16
Rental income	20	255
Interest income	37	1,317
Others	586	254
	643	1,842

6 OTHER NET (LOSSES) GAINS

	For the six months ended 30 September (unaudited)	
	2013 HK\$'000	2012 HK\$'000
Net exchange gains (losses)	1,862	(423)
Net losses on disposals of property, plant and equipment	(1,983)	—
Net realised and unrealised gains (losses) on trading securities	—	199
Compensation for termination of licence	—	(800)
Impairment losses recognised in respect of property, plant and equipment	(3,745)	—
Impairment losses recognised in respect of trade receivables	(1,746)	—
	(5,612)	(1,024)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the six months ended 30 September (unaudited)	
	2013 HK\$'000	2012 HK\$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	637	770
Finance charges on obligations under finance leases	16	38
	653	808
(b) Other items:		
Depreciation		
— assets held for use under finance lease	80	373
— other assets	5,107	6,930
Amortisation — Intangible assets	—	1,500
Operating lease charges in respect of properties:		
— minimum lease payments	6,416	12,862
— contingent rent	1,190	2,204
Cost of inventories recognised as an expense (<i>note</i>)	84,954	55,219

Note:

Included in the cost of inventories recognised as an expense is an amount of approximately HK\$4,917,000 for the six months ended 30 September 2013 (for the six months ended 30 September 2012: Nil), related to the write-down of closing inventories.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2013
(Expressed in Hong Kong dollars)

8 INCOME TAX

	For the six months ended 30 September (unaudited)	
	2013 HK\$'000	2012 HK\$'000
Current tax — Hong Kong Profits tax		
Under-provision in prior years	—	148
Current tax — PRC Enterprise income tax		
Provision for the period	—	789
Over-provision in prior years	—	(431)
Income tax expense	—	506

Notes:

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to income tax in Bermuda and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2013 as there was no assessable profits in Hong Kong for the period.
- (iii) Arts Empire Macao Commercial Offshore Limited was established as a Macao offshore company under the Macao Offshore Law and is exempted from the Macao Complementary Tax.
- (iv) Alfreda International Company Limited is subject to the Macao Complementary Tax. No provision is made during the period as the company sustained tax losses.
- (v) Pursuant to the Enterprise Income Tax Law of the People's Republic of China (the "New Tax Law"), effective from 1 January 2008, the statutory income tax rate applicable to the Company's subsidiaries in Shenzhen has changed from 15% to 25% progressively under a 5-year transition period from calendar years 2008 to 2012 (2008: 18%; 2009: 20%; 2010: 22%; 2011: 24%; 2012: 25%). For the subsidiary located in Hai Feng, the statutory income tax rate has changed from 24% to 25% from 1 January 2008.
- (vi) Under the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC entities. However, only the dividends attributable to the profits of the financial period starting from 1 January 2008 are subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Group is subject to a withholding tax at the rate of 5% for any dividend payments from certain of the Group's PRC subsidiaries.

9 DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 September 2013 (for the six months ended 30 September 2012: Nil).

10 LOSS PER SHARE

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

(a) Basic loss per share

	For the six months ended 30 September (unaudited)	
	2013	2012
Loss attributable to owners of the Company (HK\$'000)	33,354	18,868
Weighted average number of ordinary shares At 1 April and at 30 September (number of shares)	1,237,320,323	1,237,320,323
Basic loss per share (HK\$)	0.027	0.015

(b) Diluted loss per share

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

11. FIXED ASSETS — PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$2,510,000 (for the six months ended 30 September 2012: HK\$1,165,000) on acquisitions of plant and machinery in the People's Republic of China and Hong Kong. In addition, the Group recognised impairment losses on property, plant and equipment of approximately HK\$3,745,000 for the six months ended 30 September 2013 (for the six months ended 30 September 2012: Nil).

Notes to the Unaudited Interim Financial Report

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12 TRADE AND OTHER RECEIVABLES

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

	As at 30 September 2013 (unaudited) HK\$'000	As at 31 March 2013 (audited) HK\$'000
Trade debtors		
Current	9,715	9,195
Less than 3 months past due	6,312	3,823
3 to 6 months past due	2,063	3,419
Over 6 months past due	3,148	4,146
Total trade debtors, net of impairment losses	21,238	20,583
Deposits, prepayments and other receivables	33,932	30,492
	55,170	51,075

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

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

Impairment losses in respect of trade debtors are recorded using an allowance for doubtful debt account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

13 TRADE AND OTHER PAYABLES

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

	As at 30 September 2013 (unaudited) HK\$'000	As at 31 March 2013 (audited) HK\$'000
Trade creditors		
By date of invoice:		
Within 3 months	6,163	6,075
More than 3 months but within 6 months	1,916	276
More than 6 months but within 1 year	1,020	122
Over 1 year	434	346
Trade creditors	9,533	6,819
Receipts in advance	2,790	7,944
VAT and other tax payables	3,503	2,950
Accrued wages and staff costs	8,048	13,064
Accrued charges and other payables	16,026	12,430
	39,900	43,207

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

Notes to the Unaudited Interim Financial Report

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14 SHARE CAPITAL

	Unaudited As at 30 September 2013		Audited As at 31 March 2013	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid: At the beginning and the end of the period	1,237,320,323	123,732	1,237,320,323	123,732

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

15 CAPITAL COMMITMENTS

	As at 30 September 2013 (unaudited) HK\$'000	As at 31 March 2013 (audited) HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
— Contracted for but not provided in the condensed consolidated financial statements	—	3,403