ARTINI

雅天妮中國有限公司
ARTINI CHINA CO. LTD.

(incorporated in Bermuda with limited liability)

Stock Code: 789

2007-08 Annual Report


ARTINI


CONTENTS

ARTINI CHINA CO. LTD. | **2007-08 Annual Report**

2	Corporate Information
4	Corporate Profile
5	2007/2008 Major Achievements
6	Four-Year Financial Highlights
8	Chairman's Statement
13	Management Discussion and Analysis
26	Biographical Details of Directors and Senior Management
30	Report of the Directors
40	Corporate Governance Report
48	Report of Independent Auditor on the Combined Financial Statements
50	Combined Income Statement
51	Combined Balance Sheet
53	Combined Statement of Changes in Equity
54	Combined Cash Flow Statement
57	Notes to the Combined Financial Statements
120	Report of Independent Auditor on the Company's Financial Statements
122	Company's Income Statement
123	Company's Balance Sheet
124	Company's Statement of Changes in Equity
125	Company's Cash Flow Statement
127	Notes to the Company's Financial Statements

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Tse Chiu Kwan *(Chairman)*
Ms. Yip Ying Kam *(Vice Chairman)*
Mr. Xie Hai Hui *(Chief Operating Officer)*
Ms. Ho Pui Yin, Jenny

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

QUALIFIED ACCOUNTANT

Mr. Lam Hiu Fung, *HKICPA, FCCA, CFA, FTIHK, ACIArb*

COMPANY SECRETARY

Mr. Lam Hiu Fung, *HKICPA, FCCA, CFA, FTIHK, ACIArb*

AUTHORISED REPRESENTATIVES

Mr. Tse Chiu Kwan
Flat B, 44th Floor
Tower 2, Dynasty Court
23 Old Peak Road
Hong Kong

Mr. Lam Hiu Fung
Flat 10, 22nd Floor
Tower 1
8 Metropolis Drive
The Metropolis Residence
Hunghom
Kowloon
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

44/F–47/F
World Finance Centre Tower A
4003 Shen Nan Road East
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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
50th Floor, One Exchange Square
8 Connaught Place
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
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS

Porda International (Finance) PR Co., Ltd.
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

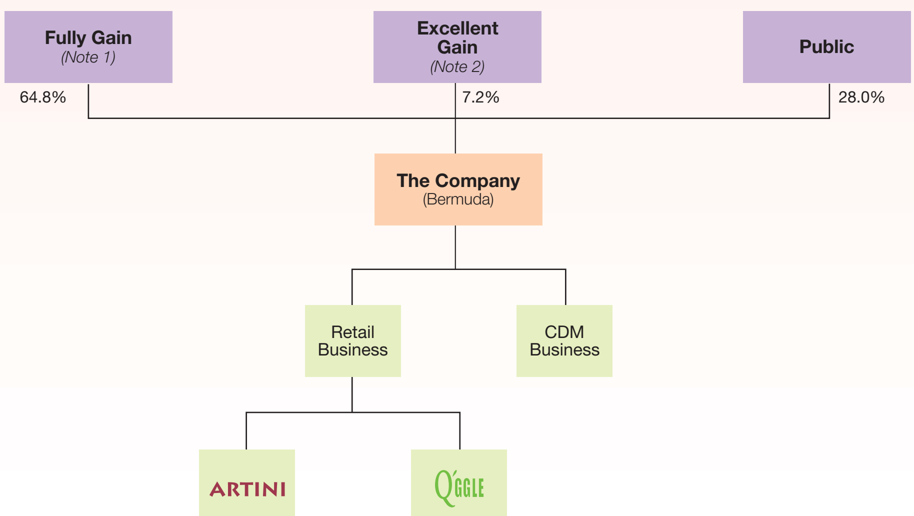
Artini China Co. Ltd. ("Artini" or the "Group") is a leading retail chain operator and manufacturer of fashion accessories and gift and premium items. Started as an export and trading company of fashion accessories 16 years ago, the Group has worked hand-in-hand with internationally acclaimed brands 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 PRC market in 2006 to widespread acclaim.

Seeing enormous potential in the vibrant PRC market, the Group took the initiative to unveil our 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 2008, the Group's retail network comprised over 130 retail points across 34 cities in the PRC, Hong Kong and Macao, with a strong presence in first-tier cities such as Beijing, Shanghai, and Shenzhen. As at 30 June 2008, Artini further expanded its retail network to 160 retail points in the PRC, Hong Kong and Macao.

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



Note:

1. Fully Gain is a company incorporated in the BVI and wholly owned by Mr. Tse Chiu Kwan.

2. Excellent Gain is a company incorporated in the BVI and wholly owned by Ms. Yip Ying Kam.

2007/2008 Major Achievements

2007

- **Boasted the honour of being "Haifeng County 2006 Model Tax Payers" awarded by Communists Committee of Haifeng County and The People's Government of Haifeng County in February 2007**
- **Awarded as "Haifeng County 2006 Statistic Work — Advanced Entities" by Statistic Bureau of Haifeng County in March 2007.**
- **Attained the "Certification of Quality Tourism Services" from Hong Kong Tourism Board on 30 September 2007**

2008

- **Successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 16 May 2008**
- **Awarded as the "Best Jewellery Supplier of the Year" by Virgin Vie at Home on January 2008**
- **Expanded retail points from 48 outlets as at 31 March 2007 to 138 outlets as at 31 March 2008**
- **Achieved satisfactory financial results for the year ended 31 March 2008**
  - — Total turnover increased by 75.8% to HK$596,739,000
  - — Retail business accounted for 49.8% of the Group's total turnover
  - — Gross profit increased by 96.4% to HK$376,426,000
  - — Net profit increased by 49.7% to HK$110,024,000

Four-Year Financial Highlights

(All amounts in HK$ thousands unless otherwise stated)

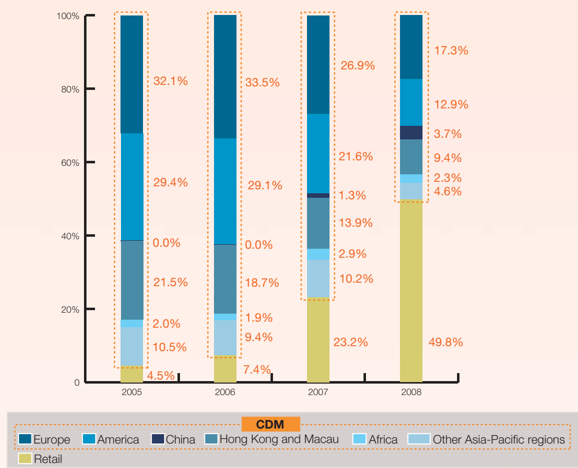
	For the Year ended 31 March			
	2008	2007	2006	2005
Turnover	**596,739**	339,480	291,739	241,210
Gross profit	**376,426**	191,696	114,282	86,599
Profit/(loss) from operations	**130,437**	84,255	57,481	45,239
Profit for the year	**110,024**	73,488	52,773	41,697
Non-current assets	**105,214**	59,401	27,300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

Four-Year Financial Highlights

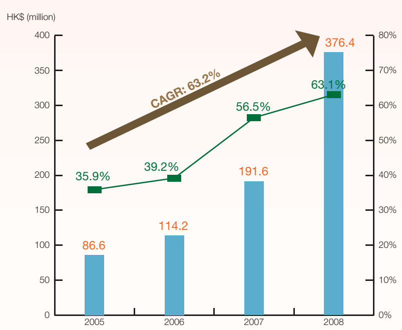
For the years ended 31 March

TURNOVER BREAKDOWN BY BUSINESS SEGMENT

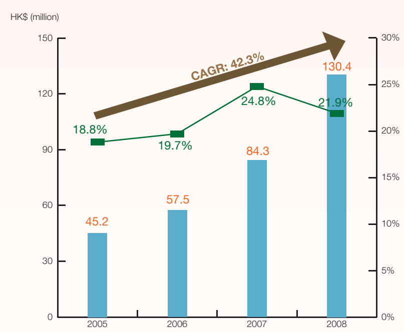
TURNOVER ANALYSIS BY GEOGRAPHICAL SEGMENTS



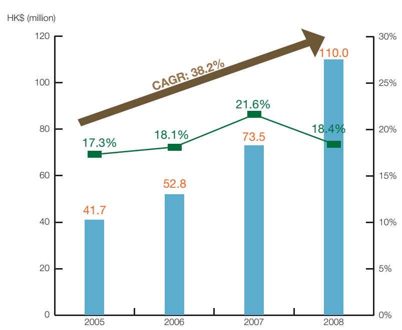
GROSS PROFIT AND GROSS PROFIT MARGIN



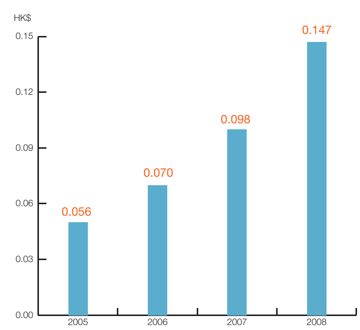
OPERATING PROFIT AND OPERATING PROFIT MARGIN



PROFIT FOR THE YEAR AND NET PROFIT MARGIN



BASIC EARNINGS PER SHARE



Chairman's Statement

Mr. Tse Chiu Kwan
Chairman

Dear Shareholders:

I am pleased to present the initial report of annual results for the twelve months ended 31 March 2008 to shareholders following our successful listing (the "Listing") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2008. During the year, we achieved great success in developing our business. During the year under review, the Group achieved remarkable performance with substantial growth in turnover and net profit. Turnover significantly increased by 75.8% to approximately HK$596,739,000. Profit for the year substantially grew by 49.7% to HK$110,024,000. Basic earnings per share also rose by 50.0% to HK$0.147. The Group further expanded its retail network during the year under review, with retail outlets increasing from 48 as at 31 March 2007 to 138 as at 31 March 2008.

MARKET REVIEW

The PRC economy is growing rapidly with improving living standards and increased consumer demand for fashion accessories. According to the World Luxury Association, the penetration of fashion accessories in the PRC remains extremely low at 16% compared to 58% in other Asian countries. This shows that the PRC market still has a great deal of room to grow. The annual output value of the PRC accessories industry increased from RMB14 billion to RMB50 billion from 2002 to 2007 or a CAGR of 29%. Moreover, the number of enterprises increased from 3,000 to 7,200, creating a high-growth yet diversified market with abundant business opportunities.

Chairman's Statement

In recent years, the enhanced quality of fashion accessories products, coupled with the greater purchasing power of domestic consumers and their preferences for high profile brands have led to the integration of a diversified PRC market. As this market grows and becomes more competitive, it is expected that a number of competitors will be forced out of the market. The survivors will be the large scale fashion accessories brands that have an international vision and are able to adapt to the changing tastes of customers.

According to the Research Report of China Fashion Accessories Industries in 2007, Artini is currently ranked second in the fashion accessories industry. The remaining top 10 in the industry's ranking are mostly international brands which Artini, in respect of market positioning, can compete with targeting the medium to high-end market, through their a nationwide retail network. Artini stands out among international brands and has become one of the favorite fashion accessories brands among domestic customers in just two years with its boundless creativity and high quality of products.

BUSINESS REVIEW

Expanding of Retail Business

The Group's retail business developed rapidly in the period under review, and turnover from retail business as a percentage of overall Group's turnover increased from 23.2% as at 31 March 2007 to 49.8% as at 31 March 2008. The number of retail points of the Group increased by more than twice from 48 as at 31 March 2007 to 138 as at 31 March 2008 and 86 of which were retail stores and concessions under Artini and 44 are retail stores and concessions under "Q'ggle", another youth target brand of the Group. The total aggregate retail area grew to 8,062 square meters. There were also 8 authorised retail outlets owned and operated by independent third parties. The current sales network of the Group mainly focuses on first and second-tier cities in the PRC, including Shanghai, Beijing, Shenzhen and Guangzhou, etc. and there are also retail stores in Hong Kong and Macao.

Well Established Brand Image

The Group strengthened its brand positioning in the market and further increased brand awareness through comprehensive and varied marketing and advertising campaigns during the period under review. The Group successfully engaged brand ambassadors, unified the display and decoration of stores, carried out the CRM program, reinforced control on quality and design of products and implemented the plan of large-scale market advertising. This gave a clear brand image to the customers, which had enhanced the brand value effectively and increased the purchasing desire of consumers directly.

Chairman's Statement

Steady Development of CDM Business

Over the past year, the development of the Group's CDM business remained stable. The Group continuously provided one-stop services for customers through an established vertically integrated business model, cooperating closely with top global brands through joint development and design. The Group also made use of its production facilities and efficient operations in order to arrange production orders from CDM customers flexibly and care for customers' needs in a timely manner.

Increasing Gross Profit Margin

The Group's retail business developed rapidly in the period under review sparking an increase in the overall gross profit margin of the Group. The vertically integrated business model of the Group had made its retail business self-sufficient. With the experience of cooperating with international well-known brands for years, the Group has been able to keep abreast of the international fashion trend, to manufacture unique fashion accessories with high brand value, achieving retail gross profit margin of 73.5% and an overall gross profit margin of 56.5% in 2007. In 2008, the Group will continue to maintain efficient production and strict cost control to maintain a competitive advantage in terms of high gross profit margin. Gross profit margin for the retail business reached 86.5%, an increase of 17.7% compared to the same period of last year, while the CDM business at 39.8%, with an overall gross profit margin of 63.1% and a year-on-year growth of 11.7%.

FUTURE DEVELOPMENT STRATEGIES

Looking ahead, the Group believes that there are still boundless opportunities in the fashion accessories industry. 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.

The Group aims to become one of the largest multi-brand operators of fashion accessories in the PRC. In order to achieve this objective effectively, we will expand its business base on the following strategies:

1. Expansion of retail network and distribution channels with the help of our established market presence in first-tier cities, the Group will also expand into surrounding second-tier cities as well. In addition, the Group intends to develop new distribution channels such as catalogue shopping and online shopping in order to expand its sales network;

2. To diversify its marketing strategies through media advertising on TV, and the internet, etc. The Group will aim for greater exposure on international media to enhance brand value, brand awareness and customer loyalty. In addition, the Group will form close relationships with customers through the CRM program;

Chairman's Statement

3. Expansion of its diversified product lines to enrich the overall product series and provide customers with more choices. In addition, the Group will continue to strengthen the design team by recruiting more designers with international vision as well as launching forereaching design and innovative products;

4. Building on our two well established existing brands, we will carry out a multi-brand development strategy, utilizing our established platform and resources to introduce international brands with various market positioning and launch new brands. The Group envisions great potential in the medium to high-end fashion accessories markets, and will focus on these to develop its multi-brand strategy; and

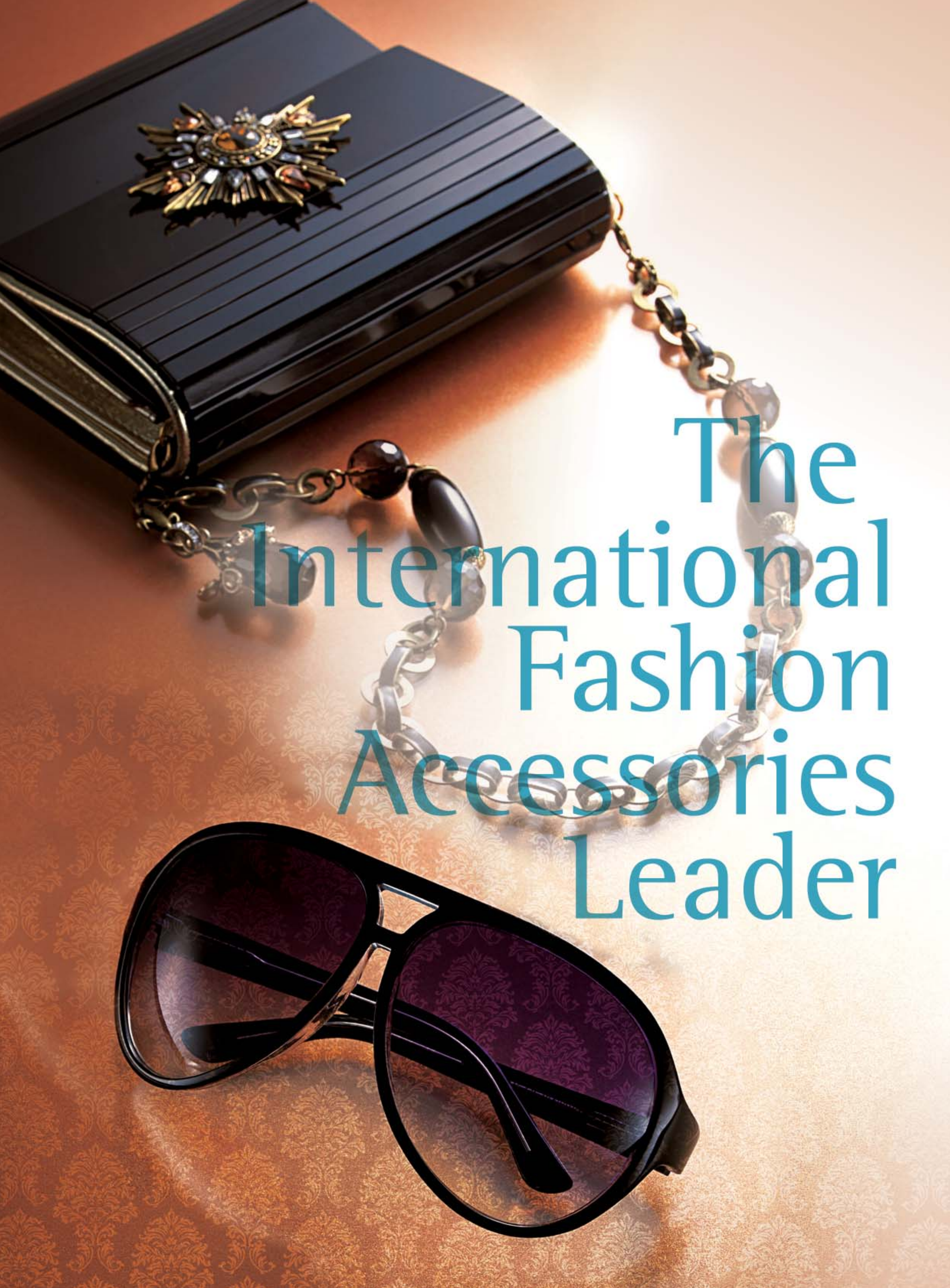
5. We will continuously strengthen our CDM business which lays a firm foundation for retail business. Leveraging our core competitiveness, the Group will maintain its existing international customer portfolio while continuing to seek new international customers. The Group will also enhance its premium and gift items.

Appreciation

The many accomplishments during the year are attributable to the joint efforts of our employees. I would like to express my gratitude to our employees for their commitment and outstanding performance, and our shareholders, customers and suppliers for their continued support. We are committed to bringing fruitful returns to shareholders by delivering sustainable business growth.

Tse Chiu Kwan
Chairman

Hong Kong, 21 July 2008


The
International
Fashion
Accessories
Leader

Management Discussion and Analysis

MARKET REVIEW

Fashion accessories market in the PRC

According to the World Luxury Association, China's consumption for luxury goods in 2007 accounted for 18% of the global market and is expected to increase to 32% by 2015. The penetration rate of fashion accessories in the PRC remains very low, which is only 16% as compared with 58% in other Asian countries. The low penetration rate in China with an urban population of 550 million indicates that the fashion accessories market still has much room to grow.

In respect of market scale, the annual output value of China's accessories industry increased from RMB14 billion in 2002 to RMB50 billion in 2007 with a CAGR of 29%, and the number of enterprises increased by more than 3 times. According to a Research Report of China Fashion Accessories Industry ("Industry Report"), China's fashion accessories industry is a rapidly growing but diversified market. Currently, there are approximately 7,200 accessories enterprises in the PRC market, most of which are competing within the medium to low-end fashion accessories market. However, according to the Industry Report, the Group is ranked second in the market and is one of the few brands that possess a nationwide retail network in the medium to high-end market.

From a macro-perspective, the increasing purchasing power of the population as well as product quality in China, together with the popularizing preferences for well-known brands, drive the development of the industry. Other factors such as the low penetration rate and the change of consumption pattern also prompt an increasing demand in the fashion accessories.

Even though the market is currently diversified, the Group expects that there will ultimately be a market consolidation and those players who lack competitive advantages will be eliminated from the market. Only competitors of high quality and operational effectiveness will remain.

BUSINESS REVIEW

Retail business

The Group currently owns two proprietary brands — "Artini" and "Q'ggle", which target at different customer bases. "Sparks of Life" is the brand concept of "Artini" which embodies classic, elegance and the romantic European style and targets at fashion conscious and tasteful customers; "Trendy & Energetic, Let's Q'ggle!" is the brand concept of "Q'ggle", which targets at cheerful, energetic, lively and trendy young consumers.

As at 31 March 2008, there were 93 "Artini" stores and 45 "Q'ggle" stores in the PRC, Hong Kong and Macao.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

CDM business

The CDM business of the Group is responsible for designing and producing fashion accessories for international branded customers. Leveraging on the Group's experience gained in the industry and our international fashion sense, the Group is able to collaborate closely with our branded customers to develop and design products concurrently. We have a diversified portfolio of customers and our top ten customers include (i) Victoria + Co., Ltd., which owns or carries licences of brands such as Givenchy and Nine West; (ii) Lucas Design International Inc., which carries licences of brands such as Playboy, Disney and Rocawear; (iii) Philipines Import/Export Ltd., which is a wholesaler of fashion jewelry in Brazil and Canada; and (iv) Connexions (Asia) Limited, an agent of a company which owns or carries licences of various international brands of men's fashion jewelry. Our CDM client base also extends to QVC Handel Gmbh, a TV shopping channel operator.

In 2008, we were awarded as the "Best Jewellery Supplier of the Year" by one of our CDM customers, namely, Virgin Vie at Home.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Expansion of sales network

As at 31 March 2008, the Group's retail network had a total of 33 retail stores, 97 concessions and 8 authorised retail outlets, of which approximately 25% and 72% were in shopping malls and department stores respectively, with a total useable area of approximately 8,000 sq.m. covering Hong Kong, Macao and 34 first-tier cities throughout the PRC, including Shenzhen, Shanghai, Beijing and Guangzhou. The majority of our stores are located in major shopping malls, hotels or department stores. The Group has developed a set of systematic and stringent store site selection procedure which focus on sales locations with high pedestrian throughput and high average purchasing power of customers, and the majority of our concessions are located in department stores across the PRC which serve as a primary retail channel for lifestyle products. Some of our retail stores are located on streets with high level of pedestrian throughput, thereby ensuring a steady flow of customers and enhancing brand awareness of our products.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

As at 31 March 2007 and 31 March 2008, the numbers of "Artini" retail points and "Q'ggle" retail points opened by the Group were as follows:

	Artini As at 31 March			Q'ggle As at 31 March		
	2007	**2008**	***changes***	**2007**	**2008**	***changes***
Retail Stores and Concessions	41	86	*+45*	3	44	*+41*
Authorised Retail Outlets	4	7	*+3*	—	1	*+1*
Total	**45**	**93**	***+48***	**3**	**45**	***+42***

	Artini As at 31 March		Q'ggle As at 31 March	
	2007	**2008**	**2007**	**2008**
Retail Stores				
Eastern China	2	5	—	—
Southern China	1	6	1	5
Western China	—	3	—	1
Northern China	5	4	1	4
Hong Kong and Macao	3	4	—	1
Sub-total	11	22	2	11
Concessions				
Eastern China	7	16	—	7
Southern China	9	16	1	11
Western China	6	13	—	5
Northern China	4	15	—	10
Hong Kong and Macao	4	4	—	—
Sub-total	30	64	1	33
Authorised Retail Outlets	4	7	—	1
Total	**45**	**93**	**3**	**45**

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Design and production

The Group strives to keep abreast with the latest and forthcoming trends. Our design team consists of professional designers from UK, Hong Kong and the PRC. Collectively, they bring international concepts and ideas to our products. Some of our key designers have attended prestigious design schools and have won internationally recognised design awards.

Our designers, coupled with our marketing team, monitor market trends and consumer preferences by participating in fashion accessories fairs, trade shows and exhibitions around the world to keep pace with the latest fashion trends. They also meet regularly to discuss the latest fashion accessories designs, technical procedures regarding production and to exchange new ideas. The management also encourages members of the design team to attend courses and workshops so as to enhance their knowledge in design technology of fashion accessories.

To maintain our design capabilities and competitiveness in the fashion accessories market, the Group owns a large-scale production base in Guangdong Province which is equipped with advanced equipments and facilities and occupies a total area of 40,000 square meters. The annual output capacity is approximately 10 million pieces and the monthly design output capacity is approximately 850 pieces. There is extra room for the existing production facilities to add new production lines so as to support future business expansion. Moreover, we have 3,000 skilled workers, which allow us to engage in large-scale production of complicated products.

Marketing

The brands of the Group have been successfully established and became well-known in the PRC. Sound market awareness and clear brand image are mainly due to the Group enhanced brand value through successful establishment of brand image, display and decoration of stores, VIP program, quality and design of products and comprehensive marketing and advertising campaigns. These effectively enhance the brand value.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

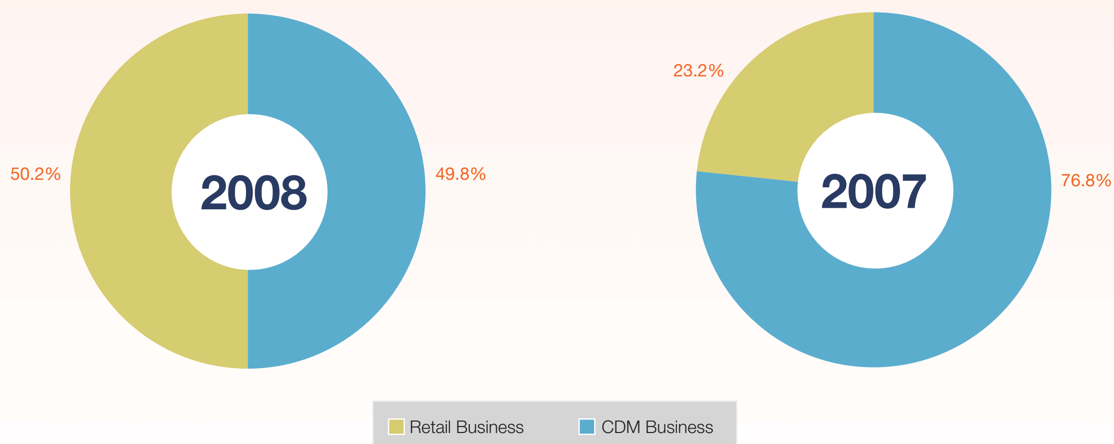
In the coming three years, the Group plans to spend approximately 4% to 6% of its total retail turnover annually on marketing and promotion to enhance the brand awareness and customers loyalty of “Artini” and “Q’ggle” brands. We will assess the budget for marketing and promotion according to the actual results and maturity of the brands, and make appropriate adjustment to the budget on an annual basis.

FINANCIAL REVIEW

Turnover

Total turnover increased from HK$339,480,000 in 2007 to HK$596,739,000 in 2008, representing an increase of 75.8%. It consists of two components: retail and CDM businesses. The increase of the total turnover is mainly due to the rapid expansion of the retail network and the significant growth of retail business for the year ended 31 March 2008.

Turnover of the Group by business segments



Turnover of retail business

The turnover of retail business increased from HK$78,666,000 in 2007 to HK$297,463,000 in 2008, representing an increase of 278.1%, primarily due to the increased numbers of retail points. There are 93 “Artini” retail points this year comparing to 45 retail points for the corresponding period of last year. “Q’ggle” opened its first store in the PRC in 2006 and there are 45 retail points in 2008 comparing to 3 retail points for the corresponding period of last year.

The rapid growth of “Artini” and “Q’ggle” are contributed by the effective brand promotion and marketing plan and the unique product design of the Group, which allowed successful establishment and expansion of the Group’s brands in the PRC market. Moreover, the continuous increase in purchasing power of the PRC people and their increased demand for fashion accessories in recent years also led to the growth of the Group’s sales.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

As at 31 March 2008, retail business accounted for 49.8% of the total turnover of the Group, comparing to that of 23.2% for the corresponding period of last year.

Turnover of retail business

	Artini and Q'ggle	
	As at 31 March 2007 HK$'000	**As at 31 March 2008** HK$'000
Hong Kong and Macao	44,035	28,190
Mainland China	34,631	269,273
Total	78,666	297,463

Turnover of CDM business

The turnover of CDM business increased from HK$260,814,000 in 2007 to HK$299,276,000 in 2008, representing an increase of 14.7%. CDM business accounted for 50.2% of the total turnover of the Group in 2008, comparing to that of 76.8% for the corresponding period of last year. This is mainly due to the expansion of the retail business of the Group which led to the increased proportion of retail business in the overall proportion of the Group.

Turnover by geographical distribution segments

As at 31 March 2008, turnover of the Group is mainly derived from the PRC, Europe and Hong Kong markets which accounted for 48.8%, 17.3% and 14.2% of turnover respectively in 2008, comparing to that of 11.5%, 26.9% and 26.9% in 2007. In particular, the turnover from the PRC market increased by 37.3% which is mainly due to the Group's progressive development of the retail business in the PRC.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Cost of Sales

Cost of sales increased from approximately HK$147,784,000 as at 31 March 2007 to approximately HK$220,313,000 as at 31 March 2008, representing an increase of approximately HK$72,529,000. The increase was in line with the increased turnover during the year under review.

Gross Profit

The overall gross profit of the Group increased from HK$191,696,000 in 2007 to HK$376,426,000 in 2008, representing an increase of 96.4%. The gross profit margin also increased from approximately 56.5% to approximately 63.1%.

Gross profit margin from retail

Gross profit margin from retail segment increased from approximately 73.5% for the year ended 31 March 2007 to 86.5% for the year ended 31 March 2008. The gross profit margin had increased primarily due to enhanced brand value, which enables new products to have a higher pricing.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Gross profit margin from CDM

Gross profit margin from CDM decreased from approximately 51.3% for the year ended 31 March 2007 to 39.8% for the year ended 31 March 2008. The decrease is mainly attributed to: (i) the production development costs incurred in the Olympic project; (ii) the increase in production and material costs and appreciation of RMB. All these factors have led to higher overall production costs and lower gross profit margin.

Operating expenses

Operating expenses of the Group mainly comprised selling and distribution costs as well as administrative expenses, all of which were effectively managed by way of reinforced management team of the Group together with strengthened internal and process control. Operating expenses accounted for 39.6% of the Group's total sales, comparing to 31.4% last year. The selling and distribution costs of the Group, which mainly comprised advertising and promotion expenses, operating lease expenses for retail stores and concessions, freight charges, turnover rent as well as staff costs for sales and marketing personnel, amounted to approximately HK$195,883,000, representing 32.8% of the Group's total sales, comparing to 22.2% last year. The increase was mainly related to the increase in the number of retail stores and concessions.

The Group's administrative expenses primarily comprised fixed assets depreciation, staff costs for directors and executives and auditor's remuneration. The said expenses amounted to HK$40,650,000 for the year under review, representing 6.8% of the Group's total sales in comparison with 9.2% last year. Such decrease was mainly due to the effect of economies of scale.

Other operating expenses increased from HK$580,000 for the year ended 31 March 2007 to HK$1,479,000 for the year ended 31 March 2008. The increase mainly comprised impairment loss on trade receivables during the year from HK$210,000 to HK$1,021,000.

Operating profit

Operating profit of the Group increased by 54.8% to HK$130,437,000 for the period under review. The operating profit margin was 21.9%.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Contingent liabilities

Certain of the group companies were entities covered by a cross guarantee arrangement in respect of certain banking facilities granted to the Group. Subsequent to the balance sheet date, the cross guarantee arrangement has been released. Details of contingent liabilities are set out in note 27 to the combined financial statements.

Income tax

Income tax increased from HK$7,988,000 for the year ended 31 March 2007 to HK$16,417,000 for the year ended 31 March 2008, representing an increase of HK$8,429,000. The effective tax rate was 9.8% in 2007 comparing to 13.0% in 2008. Such increase was mainly due to the increased profit contribution from the PRC subsidiaries of the Group, resulting an increase in PRC tax payables.

Earnings per share

Earnings per share increased from HK$0.098 for the year ended 31 March 2007 to HK$0.147 for the year ended 31 March 2008.

Future prospects

Looking ahead, the Group will dedicate to consolidate its position as the leading supplier of fashion accessories in the PRC and continue to expand its business in the PRC market. With rapid economic growth in China and the surging purchasing power, urban consumers are changing their purchasing behaviors and become inclined to products and services that enhance their lifestyles. The Group believes that with increasing affluence of consumers in the PRC, the shift in the mode of consumption will create a prosperous future for fashion accessories industry.

The Group has already attained a sizable market share in the PRC fashion accessories industry. Leveraging on our leading market position, we believe that we are prepared to take advantage of the business opportunities posed by the substantial future growth of the PRC fashion accessories industry. To maintain its continued and balanced development and become one of the leaders in the global fashion accessories industry, the Group plans to formulate its business strategies along with the following major aspects in order to achieve its goals.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Expansion of retail business in the PRC

Since it has already established a solid foundation in first-tier cities of the PRC, the Group will focus on opening more stores and concessions in the next three years and expand into surrounding second-tier cities with an aim to further expand its retail network. In addition, the Group will open its first "Artini" and "Q'ggle" flagship stores in Beijing at the end of this year to further enhance the brand images. The Group aims to expand its network to 133 "Artini" outlets and 123 "Q'ggle" outlets totaling 256 outlets by March 2009.

Enhancement of brand recognition and loyalty

The Group reinforces its brand penetration and recognition by targeting consumers in different market segments through various marketing and promotional channels. Furthermore, with the exclusive road shows performed by its image ambassadors and its friendly VIP services. The Group had successfully increased its number of VIP from 23,481 last year to 59,977 as at 31 March 2008, representing a substantial increase of 155.4%. The Group will put the strength of its established brand names into full play and improve its service quality in order to reinforce consumers' loyalty and confidence in its brand name.

Development of diversified product lines and reinforcement of design team

The Group will continue to reinforce its design team by attracting more vogue designers from Europe and the U.S. or local designers with an international vision. The Group will continuously introduce leading designs and creativities into the market so as to enhance its product competitiveness and develop diversified product lines.

Development of multi-brand strategy

The Group plans to carry out the multi-brand development strategy and utilize the established platform and resources in order to introduce international brands with different market positioning and launch new brands when the two existing brands become more mature. The Group sees great potential in the medium to high-end fashion accessories markets in the future, whereas there are only few existing competitors in these markets. Therefore, the Group will focus on these two markets when developing its brand strategy.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Strengthening of CDM business

The Group will focus its future development on retail business, for which CDM business lays a firm foundation. The Group will continue to maintain the existing international customer portfolio while continue to leverage on its core competitiveness to seek new international customers. The Group will further increase the variety of our premium and gift items.

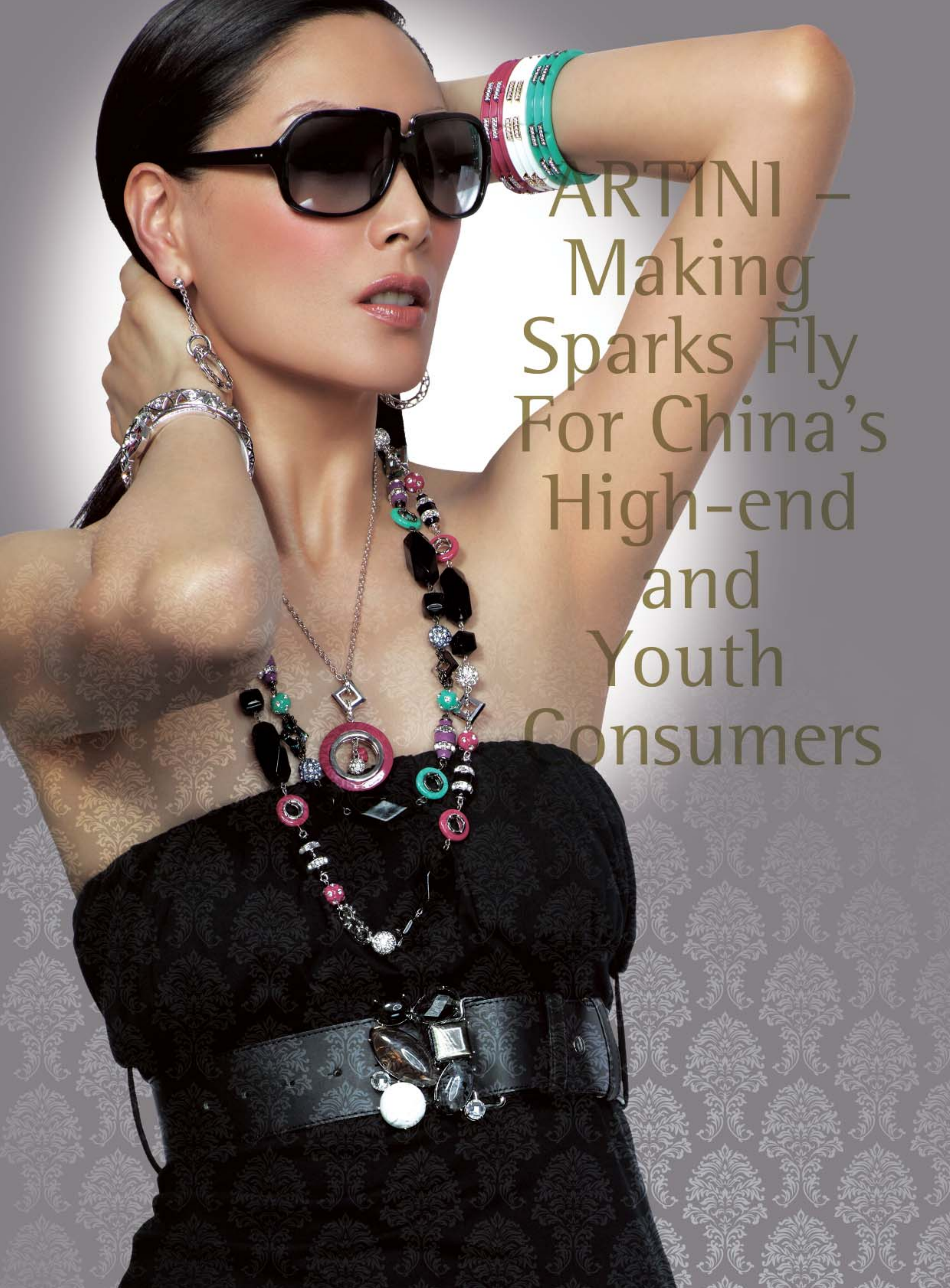
Employee training and development

The Group employed a total of 3,435 employees as at 31 March 2008 (31 March 2007: 2,906). To enhance the expertise, product knowledge, marketing skills, trendiness and the overall operational management skills of its employees, the Group will organize regular training and development courses for its employees, providing them with a competitive remuneration package, including basic salary, allowance, insurance and commission/bonus. In addition, share options will be granted to selected employees based on their individual performance.

APPRECIATION

On behalf of the board of directors, I would like to express my gratitude to our shareholders, business partners and customers for their continued support and our employees for their contribution and hard work.

ARTINI – Making Sparks Fly For China's High-end and Youth Consumers



Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSE Chiu Kwan, aged 44, is the co-founder of our Group, and was appointed as chairman of the Board and executive Director on 14 June 2007. Mr. Tse, co-founded our Group in June 1992, is primarily responsible for our Group's overall management, strategic planning and business development. He has more than 18 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; 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 and the brother of Mr. Xie.

Ms. YIP Ying Kam, aged 44, is the co-founder of our Group, and was appointed as vice chairman of the Board and executive Director on 14 June 2007. Ms. Yip, co-founded our Group in June 1992 with Mr. Tse, is primarily responsible for overseeing the corporate development, investment divisions, administration, human resources and information technology of our Group. Following her academic studies, she joined Mr. Tse in managing our Group's business. Ms. Yip has over 18 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 and the sister-in-law of Mr. Xie.

Mr. XIE Hai Hui, aged 37, was appointed as executive Director on 23 April 2008. Mr. Xie joined our Group in January 2002. Mr. Xie is also acting as the chief operation officer of our Group and is primarily responsible for factory management, exports and retail management and development divisions of our Group. Prior to joining our 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 was not a director of any listed company at any time during the three years prior to the date of this report. Mr. Xie is the brother of Mr. Tse and the brother-in-law of Ms. Yip.

Biographical Details of Directors and Senior Management

Ms. HO Pui Yin, Jenny, aged 39, was appointed as executive Director on 23 April 2008. Ms. Ho has joined our Group since December 1993 after she completed her academic studies and has more than 14 years of experience in the fashion accessories industry. Ms. Ho is the general manager of our Group and is primarily responsible for the management and development of our Group's CDM business. Prior to her appointment as executive Director, Ms. Ho was appointed as the general manager of our Group since 26 February 2002. Ms. Ho graduated from the University of Central Lancashire with a Degree of Bachelor of Arts in Business and Finance. Ms. Ho was not a director of any listed company at any time during the three years prior to the date of this report.

Independent Non-executive Directors

Ms. CHAN Man Tuen, **Irene**, aged 42, was appointed as independent non-executive Director on 23 April 2008. Ms. Chan is currently director of human resources of Beijing Olympic Broadcasting Co., Limited. Ms. Chan has 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), 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.

Mr. LAU Fai, Lawrence, aged 36, was appointed as independent non-executive Director on 23 April 2008. Mr. Lau has over 13 years of experience in accounting, corporate finance and auditing. He is a practising certified public accountant in Hong Kong and is currently the Qualified Accountant 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 from1994 to 1998. Mr. Lau is a member of the Hong Kong Society of Accountants (now known as the Hong Kong Institute of Certified Public Accountants) 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 Degree of Bachelor of Business Administration and obtained a Master of Corporate Finance from The Hong Kong Polytechnic University. Mr. Lau was not a director of any listed company at any time during the three years prior to the date of this report.

Mr. FAN William Chung Yue, aged 67, was appointed as independent non-executive Director on 23 April 2008. 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. Save as disclosed above, Mr. Fan was not a director of any listed company at any time during the three years prior to the date of this report.

Biographical Details of Directors and Senior Management

Senior Management

Ms. FU Yin Mei, Gloria, aged 38, is the general manager of our product development department which includes overseeing our product design activities. Ms. Fu joined our Group in May 1995 and has over 15 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.

Ms. LI Jun, aged 34, is the president of the retail division of our Group. Ms. Li joined our Group in October 2006. Ms. Li is responsible for the management and development of our retail business, in particular overseeing operation of our "Artini" brand. Ms. Li has over 14 years of managerial experience in retail business in the PRC. Ms. Li holds a degree in accounting and computer from the Hunan Radio and Television University.

Mr. IP Wai Sum, aged 49, 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 our 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.

Ms. YUEN Sze Wing, aged 37, is our marketing director. Ms. Yuen joined our Group in August 2007. She is principally responsible for brand-building and marketing strategies for our Group. Ms. Yuen has over 16 years of experience in strategic marketing planning, brand management and customer relationship marketing. Ms. Yuen holds a Degree of Master of Business Administration from The Chinese University of Hong Kong and a Degree of Bachelor of Social Sciences from The University of Hong Kong.

Qualified Accountant and Company Secretary

Mr. LAM Hiu Fung, aged 36, is the chief financial officer and company secretary of our Group. Mr. Lam joined our Group in March 2006 and is responsible for the overall financial management and accounting matters of our Group. Mr. Lam is employed by our Group on a full-time basis and is a member of our senior management in accordance with Rule 3.24 of the Listing Rules. Mr. Lam has over 13 years of experience in accounting and financial management. Prior to joining our Group, Mr. Lam had worked for KPMG since 1994 for almost 9 years and then worked as the financial controller in a private group that provides health care services for approximately 3 years. Mr. Lam graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration with Honours. He is a Chartered Financial Analyst, a member of the Hong Kong Institute of Certified Public Accountants and an Associate of the Chartered Institute of Arbitrators. Mr. Lam is also a fellow member of The Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong.

Biographical Details of Directors and Senior Management

AUDIT COMMITTEE

We established an audit committee on 23 April 2008 in compliance with Rules 3.21 and 3.23 of the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence and Mr. Fan William Chung Yue. Mr. Lau Fai, Lawrence is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control procedures of our Group.

REMUNERATION COMMITTEE

We established a remuneration committee on 23 April 2008 in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of four members, namely Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence and Mr. Fan William Chung Yue. Mr. Fan William Chung Yue is the chairman of the remuneration committee. The primary functions of the remuneration committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for our executive Directors and senior management.

NOMINATION COMMITTEE

We established a nomination committee pursuant to a resolution of the board of Directors passed on 23 April 2008. The nomination committee comprises four members, namely, Mr. Tse Chiu Kwan, Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence and Mr. Fan William Chung Yue. The nomination committee is chaired by Mr. Lau Fai, Lawrence. The primary function of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management.

Report of the Directors

The board (the "Board") of directors (the "Directors") of Artini China Co. Ltd. (the "Company") has the pleasure in presenting to the shareholders this annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2008.

GROUP REORGANIZATION AND INITIAL PUBLIC OFFER

The Company was incorporated in Bermuda on 30 May 2007 as an exempted company with limited liability under the Companies Act 1981 (as amended) of Bermuda. The registered office of the company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. Further details of the Group are set out in the prospectus of the Company dated 2 May 2008.

The shares (the "Shares") of the Company were listed on the Stock Exchange on 16 May 2008 (the "Listing Date") by offering 280,000,000 Shares at a final offer price of HK$2.22 per Share.

PRINCIPAL PLACE OF BUSINESS

The principal place of business of the Company in Hong Kong is located at Flat B1, 1/F., Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Hong Kong.

PRINCIPAL ACTIVITIES

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

There were no significant changes in the nature of the Group's principal activities during the year under review.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2008 are set out in the combined income statement on page 50 of the annual report.

Report of the Directors

DIVIDENDS

During the year under review, the companies comprising the Group declared and paid an interim dividend of HK$69 million to their then shareholders before listing of the Company. The Directors do not recommend the payment of a final dividend of the Company for the year ended 31 March 2008.

A special dividend of HK$0.04 per share is proposed by the Directors to be paid to the shareholders whose names will be appeared on the register of members on 28 August 2008, totalling HK$40 million. The proposed special dividend, if approved by shareholders at the annual general meeting to be held on 28 August 2008, will be paid on 9 September 2008 to shareholders. The register of members of the Company will be closed from 26 August 2008 to 28 August 2008, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch register in Hong Kong, Computershare Hong Kong Investors Services Limited, located at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 August 2008 for registration.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past four years is set out on pages 6 and 7 of the annual report.

BANK LOANS AND OVERDRAFTS

Details of the Group's loans and borrowing at the balance sheet date are set out in note 20 to the combined financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2008, the Group's outstanding borrowings amount to HK$140,569,000 comprising interest-bearing bank borrowings repayable (i) within one year of approximately HK$114,142,000; and (ii) repayable over one year of approximately HK$26,427,000. As at 31 March 2008, the Group's banking facilities were supported by (i) legal charges over the Group's leasehold and buildings, which are all situated in Hong Kong, with carrying value of approximately HK$13,237,000; (ii) mortgages over a director of the Company, Mr. Tse Chiu Kwan's personal quarters; (iii) cross corporate guarantees given by the Group and Gain Win Holdings Limited, a company owned by the directors, Mr. Tse Chiu Kwan and Ms. Yip Ying Kam; and (iv) personal guarantees given by the directors of the Company, Mr. Tse Chiu Kwan and Ms. Yip Ying Kam.

Report of the Directors

The Group's gearing ratio as at 31 March 2008 was 0.37 (2007: 0.26), calculated based on the Group's total borrowing of HK$140,569,000 (2007: HK$59,422,000) over the Group's total assets of HK$375,082,000 (2007: 229,106,000)

The Group continues to adopt a policy of dealing principally with clients with whom the Group has enjoyed a long work relationship so as to minimize risk in its business.

FOREIGN EXCHANGE EXPOSURE

Since the functional currencies of the Group's operations are mainly Hong Kong dollars, United States dollars and Renminbi, the Directors consider that the potential foresign exchange exposure of the Group is relatively limited.

FIXED ASSETS

Details of movements in property, plant and equipment of the Group during the year ended 31 March 2008 are set out in note 13 to the combined financial statements.

SHARE CAPITAL

Details of the Company's paid up capital for the year ended 31 March 2008 are set out in note 23 to the combined financial statements.

PRE-IPO SHARE OPTION SCHEME

Subsequent to the balance sheet date, the Company adopted a Pre-IPO Share Option Scheme (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 help to motivate the participants to optimize their performance and efficiency as well as attract and retain participants whose contributions are important to the long-term growth and profitability of our Group.

An offer of Pre-IPO share options is deemed to be accepted when the Company receives from participant the offer letter signed by the participant specifying the number of Shares 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.

Report of the Directors

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:

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

Any options that are not exercised on or before the third anniversary of the Listing Date shall lapse.

As at the date of this report, 10,000,000 options have been granted to certain Directors and employees of the Group under Pre-IPO Scheme.

SHARE OPTION SCHEME

Subsequent to the balance sheet date, 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 summarized 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 determine, terminate the Scheme at any time without prejudice to the exercise of options granted prior to such termination.

Report of the Directors

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.

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 in issue on the Listing Date.

Details of principal terms of the Pre-IPO Scheme and the Scheme are set out in the prospectus dated 2 May 2008.

Since the Company adopted the Pre-IPO Scheme and the Scheme both on 23 April 2008, no share option was granted by the Company for the year ended 31 March 2008.

As at the date of this report, no share option was granted by the Company under the Scheme.

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, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

As at 31 March 2008, the Shares were not listed on the Stock Exchange. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Group during the year under review are set out in note 23 to the combined financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

The aggregate amount of distributable reserves as at 31 March 2008 of the companies comprising the Group is $123,002,000.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities during the year are set out in note 27 to the combined financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 11.9% (2007: 18.4%) of the total sales. The top five suppliers accounted for approximately 35.0% (2007: 48.5%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 3.3% (2007: 6%) of the total sales and the Group's largest supplier accounted for approximately 15.6% (2007: 19.7%) 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.

DIRECTORS

The Directors of the Company in the financial year under review and up to the date of this report were:

Executive Directors

Mr. Tse Chiu Kwan (appointed on 14 June 2007)
Ms. Yip Ying Kam (appointed on 14 June 2007)
Mr. Xie Hai Hui (appointed on 23 April 2008)
Ms. Ho Pui Yin, Jenny (appointed on 23 April 2008)

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)

Report of the Directors

Pursuant to bye law 86 of the Company, any Director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following annual general meeting of the company.

Pursuant to bye law 87 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 laws 86 and 87 of the Company, the office of Directors, namely Ms. Yip Ying Kam, Mr. Xie Hai Hui, Ms. Ho Pui Yin, Jenny, Ms. Chan Man Tuen, Irene, Mr. Lau Fai, Lawrence, Mr. Fan William Chung Yue will end at the forthcoming annual general meeting (the "Annual General Meeting"). All of the above Directors, being eligible, will offer themselves for re-election at the 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 Listing Date.

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 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.

The company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and the Company considered all independent non-executive Directors to be independent.

BIOGRAPHIES OF DIRECTORS' AND SENIOR MANAGEMENT

Biographical details of Directors' and senior management of the Group are set out on pages 26 to 29 of the annual report.

DIRECTORS' INTEREST IN CONTRACT

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the financial year under review.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March 2008, the Shares of the Company were not listed on the Stock Exchange.

Report of the Directors

DIRECTORS' INTERESTS IN SHARE CAPITAL (continued)

As at the date of this annual report, 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 entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by the Directors were as follows:

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
Tse Chiu Kwan	The Company	Corporate interest (Note 1)	648,000,000 (Long)		64.80%
		Beneficial interest		5,050,000 (Long)	0.51%
Yip Ying Kam	The Company	Corporate interest (Note 2)	72,000,000 (Long)		7.20%
		Beneficial interest		1,500,000 (Long)	0.15%
Ho Pui Yin, Jenny	The Company	Beneficial interest	—	500,000 (Long)	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 company of the Company, which is wholly owned by Mr. Tse Chiu Kwan.

Note 2: These Shares are held by Excellent Gain International Holdings Limited which is wholly owned by Ms. Yip Ying Kam.

INTERESTS IN UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed herein, neither the Directors nor any of their associates had any interests or short positions in Shares, underlying shares or debentures of the Company or any of its associated corporations as at the date of this annual report as defined in Section 352 of the SFO.

Report of the Directors

DIRECTORS' RIGHT TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31 March 2008, the Shares of the Company were not listed on the Stock Exchange.

So far as the directors are aware up to the date of this annual report, 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:

Name of Shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company as at the date of the annual report
Fully Gain Worldwide Limited (Note 1)	Beneficial interest	648,000,000 (Long)	64.80%
Excellent Gain International Holdings Limited (Note 2)	Beneficial interest	72,000,000 (Long)	7.20%
JP Morgan Chase & Co.	Corporate interest	74,805,000 (Long) 74,805,000 (Lending pool)	7.48% 7.48%

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

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

Save as disclosed above, as at the date of the annual report, 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.

Report of the Directors

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 30 to the combined financial statements.

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on pages 40 to 47 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares on the Stock Exchange in May 2008, after deduction of related issuance expenses, amounted to approximately HK$483.3 million. Any net proceeds that were not applied immediately have been temporarily placed in short-term deposits with banks in Hong Kong as at the date of this report. The Directors intend to apply these net proceeds in the manner as set out in the prospectus of the Company dated 2 May 2008.

AUDITORS

The financial statements have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment at the Annual General Meeting. A resolution will be proposed at the Annual General Meeting to re-appoint KPMG as auditors of the Company.

On behalf of the Board of Directors
Tse Chiu Kwan
Chairman

Hong Kong, 21 July 2008

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. Despite the fact that the Group was a private company in the year under review, the Board of Directors (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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 and appointed a qualified accountant to oversee the financial reporting procedures and internal controls of the Group. 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.

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on 16 May 2008, all code provisions set out in the Code were fulfilled by the Company except the deviations summarized as follows:

A.1.1 as the Company was listed on 16 May 2008, only two board meetings were held for the financial year ended 31 March 2008 which deviated from the requirement of four times a year

C3.3(e)(i) as the Company was listed on 16 May 2008, no audit committee meeting was held as at 31 March 2008. The first audit committee meeting was held on 14 May 2008. From 2008 onward, the audit committee will have a meeting at least once a year

COMPLIANCE WITH THE 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 own code of conduct for securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code since the Company's listing on 16 May 2008.

Corporate Governance Report

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board comprises four executive Directors and three independent non-executive Directors.

The Board members of the Company currently are:

Executive Directors
Mr. Tse Chiu Kwan *(Chairman)*
Ms. Yip Ying Kam *(Vice Chairman)*
Mr. Xie Hai Hui *(Chief Operating Officer)*
Ms. Ho Pui Yin, Jenny

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

The biographical details of all Directors are set out in pages 26 to 29 of the annual report. Save as disclosed, 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. All executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

Functions of the Board

The principal function of the Board is to consider and approve the 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.

Corporate Governance Report

Board meetings and Board Practices

The Company will adopt the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals. 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.

As the Company was listed on 16 May 2008, only two board meetings were held during the period under review, which is a deviation from the minimum of four times a year and details of the attendance were as follows:

Name of the Directors	Directors' Attendance
Executive Directors	
Mr. Tse Chiu Kwan	2/2
Ms. Yip Ying Kam	2/2
Mr. Xie Hai Hui (not yet appointed at the time of the meeting)	0/2
Ms. Ho Pui Yin, Jenny (not yet appointed at the time of the meeting)	0/2
Independent non-Executive Directors	
Mr. Lau Fai, Lawrence (not yet appointed at the time of the meeting)	0/2
Ms. Chan Man Tuen, Irene (not yet appointed at the time of the meeting)	0/2
Mr. Fan William Chung Yue (not yet appointed at the time of the meeting)	0/2

Corporate Governance Report

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, 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.

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 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 are 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 separate 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 shareholders' benefits.

The Company has not appointed a chief executive officer during the period 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 who have extensive experience in the Jewellery industry and their respective area of profession, spearhead 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

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 Audit Committee has reviewed the Group's combined financial statements for the year ended 31 March 2008, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of the Company.

Since the Audit Committee has yet to establish during the year under review, the members of the Audit Committee did not hold any meeting during the year under review.

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.

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.

Corporate Governance Report

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, the aggregate amount for all executive Directors shall not exceed 15% of the audited combined net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

Since the Remuneration Committee has yet to establish during the year under review, the members of the Remuneration Committee did not hold any meeting during the year under review.

The Company has adopted a Pre-IPO share option scheme and a share option scheme both on 23 April 2008. The purpose of the share option schemes is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize 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 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 addition appointment on the Board and senior management.

Since the Nomination Committee has yet to establish during the year under review, the members of the Nomination Committee did not hold any meeting during the year under review.

Corporate Governance Report

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 2008, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the accounts 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 2008 are set out in the Report of Independent Auditor on the Combined Financial Statements.

Messrs Deloitte Touche Tohmatsu were appointed as external taxation advisor for the year ended 31 March 2008.

Auditors' Remuneration

During the year ended 31 March 2008, the remuneration paid or payable to the auditors, KPMG and the external taxation advisor, Deloitte Touche Tohmatsu in respect of their audit and non-audit services were as follows:

Type of Services	HK$'000
Audit services	2,744
Taxation advisory services	400
Total	3,144

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Company has engaged SHINEWING Risk Services Limited to conduct an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including financial, operation, compliance controls, etc. for the year. SHINEWING Risk Services Limited has confirmed in its assessment report that the internal control systems of the Group operate satisfactory and there is no material discrepancy which has to be brought to the attention of the Board or the shareholders of the Company. After due and careful inquiries, the Audit Committee also concurs with the view of SHINEWING Risk Services Limited.

Corporate Governance Report

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, and reports directly to the Board. The primary responsibilities of the control department include conducting meeting regularly and work closely with the Board to monitor the internal control system within the Group. In addition, they 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 recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognizes that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circular. The Company also publishes all documents in the Company's website at www.artini-china.com. The Board continues to maintain regular dialogue 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 the questions through the annual general meeting. External auditors are also available at the annual general meeting to address shareholders' queries. Separate resolutions would be proposed at general meeting on each substantially separate issue.

Shareholders' Right

The poll voting procedures and right of the shareholders to demand a poll vote would be included in all of the Company's circulars convening general meetings. The chairman of the general meeting would explain the procedures for demanding and conducting a poll before putting a resolution to vote on a show of hands and reveals how many proxies for and against have been filed in respect of each resolution. The results of the voting by poll would 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.

Report of Independent Auditor on the Combined Financial Statements

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Report of Independent Auditor on the Combined Financial Statements

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

OPINION

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

KPMG
Certified Public Accountants

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

21 July 2008

Combined Income Statement

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

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

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

Combined Balance Sheet

as at 31 March 2008
(Expressed in Hong Kong dollars)

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

Combined Balance Sheet

as at 31 March 2008
(Expressed in Hong Kong dollars)

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

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

Tse Chiu Kwan
Director

Yip Ying Kam
Director

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

Combined Statement of Changes in Equity

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

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

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

Combined Cash Flow Statement

for the year ended 31 March 2008

(Expressed in Hong Kong dollars)

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

Combined Cash Flow Statement

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

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

Combined Cash Flow Statement

for the year ended 31 March 2008

(Expressed in Hong Kong dollars)

MAJOR NON-CASH TRANSACTIONS

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(a) General information

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

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

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

(b) Reorganisation

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(b) Reorganisation (continued)

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

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

(c) Basis of presentation

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION (continued)

(c) Basis of presentation (continued)

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

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

(b) Basis of preparation of the combined financial statements

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries

(i) Subsidiaries

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

(ii) Acquisition from entities under common control

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

(iii) Transactions eliminated on combination

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

(d) Property, plant and equipment

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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

— Buildings, situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Leasehold improvements	Remaining term of the lease
— Office equipment	5 years
— Furniture and fixtures	5 years
— Motor vehicles	5 years
— Plant and machinery	5–10 years

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

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

(e) Lease prepayments

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

(f) Leased assets

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leased assets (continued)

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

— significant financial difficulty of the debtor;

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets

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

— property, plant and equipment; and

— lease prepayments.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

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

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

(h) Intangible assets

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

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

(i) Inventories

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories (continued)

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

(j) Trade and other receivables

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

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

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

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

(ii) Termination benefits

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

(o) Income tax

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

  — the same taxable entity; or

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

(p) Provisions and contingent liabilities

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue and income recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government subsidy

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

(r) Translation of foreign currencies

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Translation of foreign currencies (continued)

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

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

(s) Borrowing costs

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

(t) Store pre-operating costs

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

(u) Related parties

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties (continued)

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

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

(v) Segment reporting

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

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

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

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

(w) New standards and interpretations not yet adopted

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

3 TURNOVER

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

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

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

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

4 OTHER REVENUE

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

5 OTHER NET LOSS

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

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAXATION (continued)

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

(b) Staff costs: (continued)

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT

(a) Taxation in the combined income statement represents:

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT (continued)

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

Notes:

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

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

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

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

7 INCOME TAX IN THE COMBINED INCOME STATEMENT (continued)

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

Notes: (continued)

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

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 March 2008

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION (continued)

Year ended 31 March 2007

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

10 DIVIDENDS

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

11 BASIC AND DILUTED EARNINGS PER SHARE

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

There were no dilutive potential ordinary shares during the year.

12 SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Business segments (continued)

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Business segments (continued)

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Geographical segments

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

Revenue from external customers

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

Segment assets

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

Capital expenditures

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (continued)

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

14 INTANGIBLE ASSETS

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

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

Impairment test for trademark with indefinite useful economic life

The trademarks service the retail operations which are separately identifiable.

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

Key assumptions used for value-in-use calculation:

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

15 INVENTORIES

(a) Inventories in the combined balance sheet comprise:

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

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

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

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

16 TRADE AND OTHER RECEIVABLES

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

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

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

(a) Ageing analysis

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade debtors

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

16 TRADE AND OTHER RECEIVABLES (continued)

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

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

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

17 AMOUNTS DUE FROM/(TO) DIRECTORS

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

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

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

The outstanding balances have been subsequently settled in April 2008.

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

18 CASH AND CASH EQUIVALENTS

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

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

19 TRADE AND OTHER PAYABLES

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

19 TRADE AND OTHER PAYABLES (continued)

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

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

20 BANK LOANS AND OVERDRAFTS

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

20 BANK LOANS AND OVERDRAFTS (continued)

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

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

21 OBLIGATIONS UNDER FINANCE LEASES

The Group has obligations under finance leases repayable as follows:

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

22 INCOME TAX IN THE COMBINED BALANCE SHEET

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

22 INCOME TAX IN THE COMBINED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

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

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

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

(c) Deferred tax assets not recognised

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

22 INCOME TAX IN THE COMBINED BALANCE SHEET (continued)

(d) Deferred tax liabilities not recognised

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

23 CAPITAL AND RESERVES

(a) Share capital

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

23 CAPITAL AND RESERVES (continued)

(a) Share capital (continued)

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

(b) Nature and purpose of reserves

(i) Translation reserve

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

(ii) PRC statutory reserves

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

— *General reserve fund*

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

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

— *Enterprise expansion fund*

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

23 CAPITAL AND RESERVES (continued)

(b) Nature and purpose of reserves (continued)

(iii) Legal reserve

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

(c) Distributable reserves

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

24 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

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

(b) Liquidity risk

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(c) Business risk

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

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

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

(d) Interest rate risk

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

Sensitivity analysis

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

Effective interest rates and repricing analysis

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(e) Foreign currency risk

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

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

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

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

The following significant exchange rates applied during the year:

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(e) Foreign currency risk (continued)

Sensitivity analysis

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

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

(f) Fair value

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

(g) Estimation of fair values

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

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

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

(ii) Other financial assets and liabilities

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

24 FINANCIAL INSTRUMENTS (continued)

(h) Capital management

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

25 COMMITMENTS

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

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

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Relationship

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

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

(b) Significant related party transactions

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions (continued)

Notes:

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

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

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

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

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

(c) Balances with related parties

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel remuneration

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

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

27 CONTINGENT LIABILITIES IN RESPECT OF FINANCIAL GUARANTEES ISSUED

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

28 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

28 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Depreciation

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

(b) Impairment of assets

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

(c) Inventory provision

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

28 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Income taxes

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

(e) Determining whether an arrangement contains a lease

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

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

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

29 ULTIMATE HOLDING COMPANY

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

30 SUBSEQUENT EVENTS

(i) Group Reorganisation

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

(ii) Authorised share capital

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

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

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

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

Notes to the Combined Financial Statements

(Expressed in Hong Kong dollars)

30 SUBSEQUENT EVENTS (continued)

(iii) Listing of the Company's shares

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

(iv) Share option scheme

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

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

Report of Independent Auditor on the Company's Financial Statements

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Report of Independent Auditor on the Company's Financial Statements

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

OPINION

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

KPMG
Certified Public Accountants

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

21 July 2008

Company's Income Statement

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

(Expressed in Hong Kong dollars)

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

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

Company's Balance Sheet

as at 31 March 2008

(Expressed in Hong Kong dollars)

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

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

Tse Chiu Kwan
Director

Yip Ying Kam
Director

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

Company's Statement of Changes in Equity

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

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

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

Company's Cash Flow Statement

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

(Expressed in Hong Kong dollars)

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

Company's Cash Flow Statement

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

(Expressed in Hong Kong dollars)

MAJOR NON-CASH TRANSACTIONS:

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

1 COMPANY BACKGROUND

(a) General information

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

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

(b) Reorganisation

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Use of estimates and judgements

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

(c) Basis of measurement

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

These financial statements are prepared on the historical cost basis.

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Trade and other receivables

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

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

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

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

(e) Trade and other payables

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

(f) Income tax

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income tax (continued)

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

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

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

(g) Related parties

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

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

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

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

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

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

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

3 INCOME TAX IN THE INCOME STATEMENT

(a) Taxation in the income statement represents:

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

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

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

4 DIRECTORS' REMUNERATION

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

5 PREPAYMENTS

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

6 AMOUNT DUE FROM A DIRECTOR

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

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

7 AMOUNTS DUE TO RELATED COMPANIES

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

8 ACCRUED CHARGES AND OTHER PAYABLES

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

9 CAPITAL AND RESERVES

Share capital

Authorised and issued share capital

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

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS

(i) Group reorganisation

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

Details of the subsidiaries are as follows:

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(i) Group reorganisation (continued)

Details of the subsidiaries are as follows: (continued)

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

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

(ii) Authorised share capital

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

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

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

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

Notes to the Company's Financial Statements

(Expressed in Hong Kong dollars)

10 SUBSEQUENT EVENTS (continued)

(iii) Listing of the Company's shares

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

(iv) Share option scheme

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

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