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(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

#### **INTERIM RESULTS**

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2010 together with comparative figures for the corresponding period in 2009.

FINANCIAL HIGHLIGHTS		
	Six months en	nded 30th June,
	2010	2009
Revenue	HK\$617,917,000	HK\$586,768,000
Profit attributable to the owners		
of the Company	HK\$58,952,000	HK\$66,264,000
Earnings per share	15.4 HK cents	17.3 HK cents
Interim dividend per share	6.5 HK cents	6.5 HK cents

<sup>\*</sup> For identification purpose only

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2010

		Six months ended	
		30.6.2010	30.6.2009
		HK\$'000	HK\$'000
	Notes	(unaudited)	(unaudited)
			(restated)
Revenue	3	617,917	586,768
Cost of sales		(460,237)	(429,743)
Gross profit		157,680	157,025
Other income		5,649	11,885
Other gains and losses		1,787	1,098
Distribution and selling expenses		(12,009)	(18,986)
Administrative expenses		(85,326)	(74,031)
Other expenses		(452)	(431)
Finance costs	4	(187)	(565)
Profit before tax		67,142	75,995
Income tax expense	5	(7,681)	(9,268)
Profit for the period	6	59,461	66,727
Other comprehensive income: Exchange differences arising on translation of foreign operations		6,674	(3,486)
-			<u> </u>
Total comprehensive income for the period		66,135	63,241
Profit for the period attributable to:			
Owners of the Company		58,952	66,264
Non-controlling interests		509	463
		59,461	66,727
Total comprehensive income attributable to:			
Total comprehensive income attributable to:  Owners of the Company		65,618	62,778
Non-controlling interests		517	463
Non-controlling interests			
		66,135	63,241
Earnings per share	8		
- Basic	Č	15.4 HK cents	17.3 HK cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2010

	Notes	30.6.2010 <i>HK</i> \$'000 (unaudited)	31.12.2009 <i>HK</i> \$'000 (audited) (restated)
Non-current Assets Property, plant and equipment Prepaid lease payments Deposits paid for acquisition of property,		530,182 28,610	528,890 28,848
plant and equipment Intangible assets Loan receivable Available-for-sale investments Deferred tax assets		3,162 4,680 8,990 5,858 181	1,298 4,680 10,114 5,858 181
		581,663	579,869
Current Assets Inventories Debtors, deposits and prepayments Loan receivable Prepaid lease payments Tax recoverable	9	168,949 297,007 2,248 748	148,335 316,127 2,248 744 54
Short-term bank deposits Bank balances and cash		162,357 208,949	118,906 222,850
		840,258	809,264
Current Liabilities Creditors and accrued charges Bank borrowings Tax liabilities	10	251,464 10,000 12,464	260,579 10,000 4,841
		273,928	275,420
Net Current Assets		566,330	533,844
<b>Total Assets less Current Liabilities</b>		1,147,993	1,113,713
Capital and Reserves Share capital Reserves		38,365 1,071,857	38,365 1,033,094
Equity attributable to owners of the Company Non-controlling interests		1,110,222 4,228	1,071,459 3,711
<b>Total Equity</b>		1,114,450	1,075,170
Non-current Liabilities Deferred tax liabilities Bank borrowings		12,710 20,833	12,710 25,833
		33,543	38,543
		1,147,993	1,113,713

#### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 ("HKAS" 34) "Interim Financial Reporting".

#### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements
	to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment
	Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs are applicable.

#### Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17 that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions of HKAS 17 "Leases", the Group reassessed the classification of land elements of unexpired leases at 1st January, 2010 based on information which existed at the inception of these leases. Leasehold lands which met finance lease classification have been reclassified from prepaid lease payments to property, plant and equipment retrospectively, resulting in a reclassification of prepaid lease payments with previous carrying amount of approximately HK\$5,321,000 as at 31st December, 2009 as property, plant and equipment that are measured at cost model.

The effect of changes in accounting policies described above on the financial positions of the Group as at 31st December, 2009 is as follows:

	As at		As at
	31.12.2009		31.12.2009
	(originally stated)	Adjustments	(restated)
	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	523,569	5,321	528,890
Prepaid lease payments – non-current	34,027	(5,179)	28,848
Prepaid lease payments – current	886	(142)	744
	558,482		558,482

Except as described above, the adoption of other new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Right Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7
	Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity
	Instruments <sup>3</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate
- <sup>2</sup> Effective for annual periods beginning on or after 1st February, 2010
- Effective for annual periods beginning on or after 1st July, 2010
- <sup>4</sup> Effective for annual periods beginning on or after 1st January, 2011
- <sup>5</sup> Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

#### 3. SEGMENT INFORMATION

The information reported to the Group's chief operating decision maker (i.e. Executive Directors) for the purpose of resource allocation and assessment of performance is focused on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

## Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the period under review:

#### For the six months ended 30th June, 2010

	Europe <i>HK\$</i> '000	United States HK\$'000	Asia <i>HK\$</i> '000	Other regions <i>HK\$</i> '000	Consolidated HK\$'000
Revenue					
External sales	381,102	182,930	36,321	17,564	617,917
Result					
Segment profit	52,092	25,667	6,505	2,267	86,531
Unallocated income					845
Unallocated corporate expenses					(20,684)
Interest income on bank deposits					637
Finance costs					(187)
Profit before tax					67,142
For the six months ended 30th J	une, 2009 (res	tated, see note	11)		
		United		Other	
	Europe	States	Asia	regions	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue					
External sales	374,967	165,342	28,648	17,811	586,768
Result					
Segment profit	57,415	24,651	6,587	1,603	90,256
Unallocated income					349
Unallocated corporate expenses Interest income on bank deposits					(15,066) 1,021
Finance costs					(565)
I mance costs					
Profit before tax					75,995

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, investment income, interest income, royalty income, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

#### 4. FINANCE COSTS

The financial costs represent interest expense on bank borrowings wholly repayable within five years.

#### 5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2010 HK\$'000	30.6.2009 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	7,677	8,904
The People's Republic of China ("PRC") Enterprise Income Tax		
– Current year	4	_
Deferred taxation		
– Current year		364
	7,681	9,268

Hong Kong Profits Tax is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 16.5% for both periods under review.

PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 apportionment basis, a portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both periods.

#### 6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
		(restated)
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	460,237	425,583
Depreciation of property, plant and equipment	49,642	43,644
Loss on disposal of property, plant and equipment	6	116
Net foreign exchange gains	(1,793)	(1,214)
Release of prepaid lease payments	351	350
Allowance for inventories	_	4,160
Allowance for doubtful debts, net	1,508	8,161
DIVIDENDS		
	Six months	s ended
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Final dividend paid in respect of 2009 of 7.0 HK cents		

The interim dividend in respect of 2010 of 6.5 HK cents (2009: 6.5 HK cents) per share amounting to a total of HK\$24,937,000 (2009: HK\$24,937,000) has been declared by the board of directors on 31st August, 2010.

26,855

24,937

#### 8. EARNINGS PER SHARE

(2009: 6.5 HK cents in respect of 2008) per share

7.

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	58,952	66,264
	Number o	of shares
Number of shares for the purpose of basic earnings per share	383,650,000	383,650,000

No diluted earnings per share have been presented as there were no potential ordinary shares in issue for both periods.

#### 9. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$293,719,000 (31st December, 2009: HK\$312,654,000). The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	30.6.2010 HK\$'000	31.12.2009 <i>HK</i> \$'000
0 – 90 days	246,338	254,164
91 – 180 days	45,276	54,697
More than 180 days	2,105	3,793
	293,719	312,654

#### 10. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$138,805,000 (31st December, 2009: HK\$136,485,000). The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	30.6.2010 HK\$'000	31.12.2009 <i>HK</i> \$'000
0 – 60 days	93,479	96,641
61 – 120 days	43,237	36,917
More than 120 days	2,089	2,927
	138,805	136,485

#### 11. COMPARATIVE FIGURES

In order to conform with current period's presentation, sales rebate of HK\$6,582,000 for the period ended 30th June, 2009 which was previously included in distribution and selling expenses has been re-presented as deduction from revenue.

#### **DIVIDEND**

The Board has resolved to declare an interim dividend of 6.5 HK cents per share for the six months ended 30th June, 2010 (2009: 6.5 HK cents per share). The interim dividend will be payable on 27th September, 2010 to shareholders whose names appear on the register of members of the Company on 20th September, 2010.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 17th September, 2010 to 20th September, 2010, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16th September, 2010 in order to qualify for the interim dividend mentioned above.

#### **BUSINESS REVIEW**

#### **Profitability analysis**

The Group's consolidated revenue increased by 5% to HK\$617.9 million (2009: HK\$586.8 million) whereas the profit attributable to owners of the Company decreased by 11% to HK\$59.0 million (2009: HK\$66.3 million) in the six months ended 30th June, 2010. Basic earnings per share decreased correspondingly by 11% to 15.4 HK cents (2009: 17.3 HK cents) in the period under review.

In order to maintain its competitiveness in the increasingly tight labour market in China, the Group had raised the wages of its workers in China in April, before another round of increase in July this year. The increase in labour costs and the relatively higher inflationary environment in China dragged down the gross profit ratio (ratio of gross profit to revenue) of the Group from 26.8% in the first half of 2009 to 25.5% in the corresponding period of 2010. Although the total expenses-to-revenue ratio (ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) remained fairly constant at 15.9% for the first half of this year as compared to 16.0% for the same period in 2009, the net profit ratio (ratio of profit attributable to owners of the Company to revenue) decreased from 11.3% in the first half of 2009 to 9.5% in the first half of 2010 because of the decline in gross profit ratio.

#### Original design manufacturing (ODM) division

Although the markets for the Group's ODM division started to show signs of stabilization and gradual recovery since the middle of 2009, concerns over of a double-dip recession in the United States (the "US") and the spread of the sovereign debt crisis in Europe plagued the momentum of recovery in these two principal markets of the Group. Sales to ODM customers increased modestly by 6% from HK\$533.5 million in the first six months of 2009 to HK\$564.0 million in the period under review. Sales to Europe, the US, Asia and other regions increased by 2%, 11%, 30% and 16% respectively and accounted for 63%, 32%, 3% and 2% respectively of the sales of this division in the first six months of 2010 (2009: 65%, 30%, 3% and 2% respectively).

The Group adjusted its product mix amid the tepid economic recovery. Sales of prescription frames remained relatively flat whereas sales of sunglasses, which are discretionary spending items, was up by 19% in the period under review as compared with the corresponding period last year. Sales of prescription frames, sunglasses and spare parts accounted for 59%, 39% and 2% respectively of the revenue of this division in the first half of 2010 (2009: 63%, 35% and 2% respectively).

## Distribution and retailing divisions

Revenue generated by the distribution division increased marginally by 2% from HK\$50.6 million in the first half of 2009 to HK\$51.7 million in the first half of 2010. Sales to Europe, the biggest market of the distribution division, was down slightly by 2% amid consumers concerns over the spread of the sovereign debt crisis. Asia, the second biggest market of this division, registered a robust growth of sales of 33%. Sales to Europe, Asia, North America and other regions accounted for 56%, 29%, 6% and 9% respectively of the turnover of the distribution division in the first half of 2010 (2009: 58%, 23%, 6% and 13% respectively). The Group-owned German brand "STEPPER" continued to be the best-selling brand of the Group's distribution division.

The Group operated 3 shops in Shenzhen in both the period under review and the corresponding period in 2009. Revenue of the retailing division decreased by 19% to HK\$2.2 million in the first half of 2010 (2009: HK\$2.7 million), the primary reason being that the main entrance of one of the shops was blocked by the construction of a Metro station.

#### Financial position and liquidity

#### Working capital management

The Group has been carefully raising its production capacity amid the gradual stabilization and recovery of the market since the middle of 2009. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 59 days in the first six months of 2009 to 67 days in the corresponding period of 2010. Debtors turnover period (ratio of trade debtors to revenue) decreased from 97 days to 87 days, reflecting an improvement in the quality of the Group's customer portfolio and market liquidity. The current ratio of the Group as at 30th June, 2010 was 3.1 to 1 (31st December, 2009: 2.9 to 1) with HK\$840.3 million of current assets (31st December, 2009: HK\$809.3 million) and HK\$273.9 million of current liabilities (31st December, 2009: HK\$275.4 million).

## Cash flows

During the period under review, the Group's operating activities generated a healthy net cash inflow of HK\$106.3 million, although it was lower than the HK\$185.1 million net cash inflow reported in the corresponding period in 2009. This was because of aggressive action taken by the management to reduce the working capital requirement in the first half of 2009 in view of the financial tsunami, resulting in a relatively high level of net cash inflow from operating activities in such period. Moreover, the management had rescheduled the capital expenditure plan for 2009 and postponed some of its

investments to 2010. Capital expenditure therefore increased from HK\$25.8 million in the first six months of 2009 to HK\$46.5 million in the period under review. A dividend payment of HK\$26.9 million was paid during the period under review (2009: HK\$24.9 million). The net cash position of the Group (total of short-term bank deposits as well as bank balances and cash less bank borrowings) increased from HK\$305.9 million as at 31st December, 2009 to HK\$340.5 million as at 30th June, 2010.

## Gearing position

The gearing position of the Group remained low throughout the first six months of 2010. As at 30th June, 2010, total non-current liabilities and debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) were HK\$33.5 million (31st December, 2009: HK\$38.5 million) and 3.0% (31st December, 2009: 3.6%) respectively.

#### Net book value

The Company had 383,650,000 shares in issue as at both 30th June, 2010 and 31st December, 2009 with equity attributable to owners of the Company amounting to HK\$1,110.2 million and HK\$1,071.5 million as at 30th June, 2010 and 31st December, 2009 respectively. Net book value per share (equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2010 was HK\$2.89 (31st December, 2009: HK\$2.79).

## Foreign currency exposure

The Group was exposed to the potential appreciation of Renminbi against both the US dollar and Hong Kong dollar. Save for the above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between the US dollar and Hong Kong dollar were relatively stable during the period under review.

#### Contingent liabilities

Contingent liabilities	30.6.2010 HK\$'000	31.12.2009 HK\$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	9,688	9,688

The directors of the Company consider that the fair value of this financial guarantee contract at its initial recognition and the carrying amount at 31st December, 2009 and 30th June, 2010 are insignificant and of low applicable default risk. The Group has not recognised any deferred income in the condensed consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

#### **PROSPECTS**

The management expects that the demand for the products of its ODM and distribution divisions will remain stable and grow gradually in the second half of the year. A stable order book of three months of sales orders will be maintained. On the cost side, the challenges mentioned in the 2009 Annual Report, namely rising labour costs due to shortage of skilful labour in China, higher raw material prices, accelerating inflation in China and the appreciation of Renminbi continue to put our gross margin under pressure. Although the Group will implement a modest price increase on its products in the second half of 2010, the effect of this will only be reflected in the financial results for the first quarter of 2011. The management will continue to put strenuous efforts on improving the operational efficiency of the Group in order to alleviate the cost pressure.

The Group will maintain the existing operating scale of the retailing division and continue to focus on the improvement of profitability of the existing shops. Overall contribution of this division to the Group will remain relatively limited in the second half of 2010.

In June, the Group received a letter from the Land Preparation and Resettlements Bureau of Tiyuxinchen District, Shenzhen, which requested the Group to prepare for the relocation of our factory in Shenzhen. In July, the Group acquired the land use rights of or the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon through a connected transaction with Mr. Ng Hoi Ying, Michael, an executive director and controlling shareholder of the Company. The Group is formulating a plan to relocate its production facilities to new premises in Shenzhen and Huiyang to ensure sure that its operations will not be disrupted.

The Group will continue its strategy of focusing on its core business, continuous improvement of its competitiveness by investment in strategic areas and maintaining a liquid and solid balance sheet. Capacity expansion will be carefully monitored so that our flexible operating scale can be maintained and our pricing power will be preserved.

#### EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2010, the Group employed approximately 11,600 (31st December, 2009: 10,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

#### **CORPORATE GOVERNANCE**

The Company has complied with all applicable code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th June, 2010 except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Audit Committee currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Francis George Martin, all of whom are independent non-executive directors of the Company. The duties of the Audit Committee include (but are not limited to) the review of interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the management and/or external auditor of the Company. The Group's unaudited financial statements for the six months ended 30th June, 2010 have been reviewed by the Audit Committee and the Company's auditor, Messrs, Deloitte Touche Tohmatsu.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Francis George Martin (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive directors of the Company. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive directors of the Company and review of the remuneration policy of the Group.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2010.

#### PUBLICATION OF INTERIM REPORT

The 2010 interim report will be despatched to the shareholders of the Company and be made available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk on or about 9th September, 2010.

## **DIRECTORS**

As at the date of this announcement, the Board comprises six directors, three of whom are executive directors, namely Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

By Order of the Board Ng Hoi Ying, Michael Chairman

Hong Kong, 31st August, 2010