ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1120)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

INTERIM RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2013 together with comparative figures for the corresponding period in 2012.

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,	
	2013	2012
Revenue	**HK$706,725,000**	HK$729,025,000
Profit attributable to the owners of the Company	**HK$18,170,000**	HK$27,499,000
Earnings per share	**4.7 HK cents**	7.2 HK cents
Interim dividend per share	**2.5 HK cents**	4.0 HK cents

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30th June, 2013

		Six months ended	
	Notes	**30.6.2013** ***HK$'000*** **(unaudited)**	30.6.2012 *HK$'000* (unaudited)
Revenue	3	**706,725**	729,025
Cost of sales		**(569,949)**	(593,196)
Gross profit		**136,776**	135,829
Other income		**10,522**	7,538
Other gains and losses		**1,830**	381
Distribution and selling expenses		**(10,945)**	(10,935)
Administrative expenses		**(111,722)**	(100,293)
Other expenses		**(408)**	(557)
Finance costs	4	**(724)**	(301)
Share of loss of a joint venture		**(198)**	–
Profit before tax		**25,131**	31,662
Income tax expense	5	**(6,406)**	(3,033)
Profit for the period	6	**18,725**	28,629
Other comprehensive income (expense):			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**11,314**	(10,086)
Total comprehensive income for the period		**30,039**	18,543
Profit for the period attributable to:			
Owners of the Company		**18,170**	27,499
Non-controlling interests		**555**	1,130
		18,725	28,629
Total comprehensive income for the period attributable to:			
Owners of the Company		**29,499**	17,413
Non-controlling interests		**540**	1,130
		30,039	18,543
Earnings per share	8		
– Basic		**4.7 HK cents**	7.2 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Notes	**30.6.2013** ***HK$'000*** **(unaudited)**	31.12.2012 *HK$'000* (audited)
Non-current Assets			
Property, plant and equipment		**753,193**	762,197
Prepaid lease payments		**65,668**	65,423
Deposits paid for acquisition of property, plant and equipment		**311**	537
Intangible assets		**4,680**	4,680
Interest in a joint venture		**4,678**	4,797
Loan receivable		**2,250**	3,388
Available-for-sale investment		**5,858**	5,858
Deferred tax assets		**151**	188
		836,789	847,068
Current Assets			
Inventories		**179,448**	196,537
Debtors, deposits and prepayments	9	**402,277**	413,475
Loan to a joint venture		**173**	–
Loan receivable		**2,249**	2,248
Prepaid lease payments		**1,603**	1,578
Tax recoverable		**34**	1,953
Short-term bank deposits		**14,048**	34,703
Bank balances and cash		**182,231**	143,082
		782,063	793,576
Current Liabilities			
Creditors and accrued charges	10	**262,489**	301,406
Bank borrowings		**44,468**	51,195
Tax liabilities		**4,118**	535
		311,075	353,136
Net Current Assets		**470,988**	440,440
Total Assets less Current Liabilities		**1,307,777**	1,287,508
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,254,855**	1,234,947
Equity attributable to owners of the Company		**1,293,220**	1,273,312
Non-controlling interests		**5,361**	5,829
Total Equity		**1,298,581**	1,279,141
Non-current Liabilities			
Deferred tax liabilities		**9,196**	8,367
		1,307,777	1,287,508

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2013 are same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Venture
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of the relevant standards is set out below.

HKFRS 10 ***Consolidated Financial Statements***

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when: (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company ("Directors") has made an assessment of the application of HKFRS 10 and concluded that the application of the standard has had no significant impact on the financial results or position of the Group for the current interim or prior period.

HKFRS 11 ***Joint Arrangements***

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed).

The Directors reviewed and assessed the classification of the Group's investment in a joint arrangement in accordance with the requirements of HKFRS 11. The Directors concluded that the Group's interest in a jointly controlled entity as classified under HKAS 31 and was accounted for using equity method, should be classified as a joint venture under HKFRS 11 and continue to be accounted for using the equity method.

Amendments to HKAS 1 ***Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker ("CODM"), for the purposes 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 and operating segment for the period under review:

For the six months ended 30th June, 2013

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**467,369**	**171,387**	**45,249**	**22,720**	**706,725**
Result					
Segment profit	**36,507**	**13,903**	**4,374**	**828**	**55,612**
Unallocated income					**168**
Unallocated corporate expenses					**(30,003)**
Interest income on bank deposits					**276**
Finance costs					**(724)**
Share of loss of a joint venture					**(198)**
Profit before tax					**25,131**

For the six months ended 30th June, 2012

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	477,491	187,218	40,386	23,930	729,025
Result					
Segment profit	33,078	12,778	6,043	2,211	54,110
Unallocated income					123
Unallocated corporate expenses					(23,211)
Interest income on bank deposits					941
Finance costs					(301)
Profit before tax					31,662

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' emoluments, investment income, royalty income, finance costs and share of loss of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. FINANCE COSTS

	Six months ended	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**132**	91
Interest on bank borrowings wholly repayable after five years	**592**	210
	724	301

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**5,530**	4,582
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**10**	44
– Underprovision in respect of prior year	**–**	20
Deferred taxation		
– Current year	**866**	(1,613)
	6,406	3,033

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 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 appointment basis, a portion of the Group's profits is deemed 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, 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	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**569,949**	593,196
Depreciation of property, plant and equipment	**51,393**	47,592
Loss (gain) on disposal of property, plant and equipment	**15**	(123)
Net foreign exchange gains (included in other gains and losses)	**(1,845)**	(258)
Release of prepaid lease payments	**766**	736
Allowance for doubtful debts, net (included in distribution and selling expenses)	**245**	1,751

7. DIVIDENDS

	Six months ended	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Final dividend paid of 2.5 HK cents in respect of 2012 (2012: 6.5 HK cents in respect of 2011) per share	**9,591**	24,937

An interim dividend of 2.5 HK cents in respect of 2013 (2012: 4.0 HK cents) per share amounting to a total of HK$9,591,000 (2012: HK$15,346,000) has been declared by the board of Directors on 29th August, 2013.

8. EARNINGS PER SHARE

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	
	30.6.2013	30.6.2012
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**18,170**	27,499
	Number 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 a credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors and bills receivable of HK$366,680,000 and HK$1,083,000 respectively (31st December, 2012: HK$402,893,000 and HK$3,455,000 respectively). The following is an aged analysis of trade debtors net of allowance for doubtful debts based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
0 – 90 days	**291,336**	311,185
91 – 180 days	**74,465**	91,107
More than 180 days	**879**	601
	366,680	402,893

The following is an aged analysis of bills receivable based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
0 – 90 days	**1,072**	2,691
91 – 180 days	**11**	764
	1,083	3,455

10. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK$130,275,000 (31st December, 2012: HK$149,608,000). The following is an aged analysis of trade creditors based on the invoice date at the end of the reporting period:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
0 – 60 days	**108,301**	101,166
61 – 120 days	**19,754**	44,357
More than 120 days	**2,220**	4,085
	130,275	149,608

11. EVENT AFTER THE REPORTING PERIOD

On 21st August, 2013, Arts Optical (Heyuan) Company Limited ("Arts Heyuan"), a subsidiary of the Company, entered into two equity transfer agreements (the "Equity Transfer Agreements") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreements, Arts Heyuan agreed to sell and the Purchaser agreed to purchase the entire equity interests in 滙聯眼鏡製造廠(河源)有限公司 (Huilian Optical Manufactory (Heyuan) Limited) and 滙龍眼鏡五金配件(河源)有限公司 (Huilong Optical Manufactory (Heyuan) Limited) (collectively the "Target Companies") at an aggregate consideration of HK$22,000,000.

The Target Companies are principally engaged in investment holding. The principal assets owned by the Target Companies are two parcels of land (the "Properties") located at Planning Area No. 1 of Guzhu Town Development Zone, Zijin County, Heyuan City, Guangdong Province, the PRC with a total site area of 308,887.10 square metres. The carrying amount of the Properties as at 30th June, 2013 was approximately RMB6,632,000 (equivalent to approximately HK$8,503,000) and is included in "prepaid lease payments" under both non-current assets and current assets. Based on the valuation conducted by Vigers Appraisal & Consulting Limited, the market value of the Properties as at 30th June, 2013 was approximately RMB16,970,000 (equivalent to approximately HK$21,756,000). Based on the unaudited net asset value of the Target Companies (after adjusting for intra-group balances pursuant to the Equity Transfer Agreements) as at 30th June, 2013 of approximately HK$7,711,000, the Group is expected to realise a gain, after estimated expenses, of approximately HK$13,500,000 from the disposal.

The consideration of HK$22,000,000 was determined after arm's length negotiations between Arts Heyuan and the Purchaser with reference to an independent valuation of the Properties. The consideration represented a premium of approximately 4.9% to the unaudited net asset value of approximately HK$20,964,000 of the Target Companies after adjusting for the surplus arising on valuation of the Properties and intra-group balances pursuant to the Equity Transfer Agreements.

The Group intends to use the proceeds from the disposal as general working capital upon completion of the disposal.

DIVIDEND

The Board has resolved to declare an interim dividend of 2.5 HK cents per share for the six months ended 30th June, 2013 (2012: 4.0 HK cents per share). The interim dividend will be payable on or about 16th October, 2013 to shareholders whose names appear on the register of members of the Company on 4th October, 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3rd October, 2013 to 4th October, 2013, both days inclusive, during which period no transfer of shares will be effected. All properly completed transfer forms 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 2nd October, 2013 in order to qualify for the interim dividend mentioned above.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 3% to HK$706.7 million in the six months ended 30th June, 2013 (2012: HK$729.0 million). Both the profit attributable to owners of the Company and basic earnings per share decreased by 34% to HK$18.2 million and 4.7 HK cents respectively in the period under review (2012: HK$27.5 million and 7.2 HK cents respectively).

The surge in operating costs in China arising from the increase in labour costs and appreciation of Renminbi against both United States ("US") dollar and Hong Kong dollar continued to affect the financial performance of the Group. The Group managed to offset these adverse impacts through improvement in operational efficiency and improved its gross profit ratio (being the ratio of gross profit to revenue) by 0.8% from 18.6% for the first six months in 2012 to 19.4% for the period under review. Total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) increased by 2.1% from 15.4% to 17.5% principally as a result of the increase in depreciation charge after the production plants in Heyuan started operations in late 2012. Accordingly, the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) decreased by 1.2% from 3.8% for the first half of 2012 to 2.6% for the period under review.

Original design manufacturing (ODM) division

Revenue generated by the ODM division represented approximately 90% of the consolidated revenue of the Group in the first half of both 2013 and 2012. Market sentiment in all major market segments remained weak and accordingly sales to ODM customers decreased by 4% from HK$657.9 million in the first six months of 2012 to HK$633.7 million in the first six months of 2013. Geographically, sales to Europe, the

US, Asia and other regions accounted for 69%, 26%, 4% and 1% respectively (2012: 67%, 28%, 3% and 2% respectively) of the revenue of the ODM division in the period under review. The increase in proportion of sales to Europe did not result from any market recovery there but reflected the increased dominance of this industry by the leading Italian eyewear companies which distributed their portfolio of branded products through their global distribution or retailing networks. Among the different product categories, sales of prescription frames was flat whereas sales of sunglasses dropped by 10%, reflecting the recession-proof characteristic of prescription frames. Sales of prescription frames, sunglasses and spare parts accounted for 51%, 46% and 3% respectively of the revenue of this division during the period under review (2012: 49%, 49% and 2% respectively).

Distribution and retailing divisions

Revenue generated by the sale of house brands products of our distribution division increased modestly by 3% from HK$69.0 million in the first half of 2012 to HK$71.3 million in the first half of 2013. Growth in sales was recorded in all market segments except for Europe where the demand remained soft. Sales to Europe, Asia and other regions accounted for 44%, 25% and 31% respectively of the revenue of the distribution division in the first six months of 2013 (2012: 54%, 23% and 23% respectively). This division contributed approximately 10% to the consolidated revenue of the Group in the period under review (2012: 9%).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division declined from HK$2.1 million in the first half of 2012 to HK$1.7 million in the corresponding period of 2013 as the number of shops operated by the Group decreased from two to one.

Financial position and liquidity

Cash flows

The Group generated a net cash inflow of HK$66.7 million during the period under review (2012: HK$97.8 million). Capital expenditure decreased significantly from HK$136.2 million in the first six months of 2012 to HK$32.3 million in the period under review as the Group completed the acquisition of its new office in Hong Kong with a total cost of HK$99.0 million in the first half of 2012. Total dividend payments of HK$10.6 million were made (2012: HK$25.5 million). The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) increased from HK$126.6 million as at 31st December, 2012 to HK$151.8 million as at 30th June, 2013.

Working capital management

The management continued to put strenuous efforts in shortening the cash conversion cycle. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased accordingly from 60 days in the first half of 2012 to 57 days in the first half of 2013 as a result of the reduction in production lead time. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also decreased from 98 days in the first six months of 2012 to 95 days in the first six months of 2013. The current ratio (being the ratio of total current assets to total current liabilities) of the Group increased from 2.2 to 1.0 as at 31st December, 2012 to 2.5 to 1.0 as at 30th June, 2013, reflecting the strong and liquid financial position of the Group during the period under review.

Gearing position

The Group's gearing position remained low throughout the first six months of 2013. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at 0.7% as at both 31st December, 2012 and 30th June, 2013. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$9.2 million as at 30th June, 2013 (31st December, 2012: HK$8.4 million).

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2013 and 31st December, 2012 with an equity attributable to owners of the Company amounting to HK$1,293.2 million and HK$1,273.3 million as at 30th June, 2013 and 31st December, 2012 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2013 was HK$3.37 (31st December, 2012: HK$3.32).

Foreign currency exposure

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

Contingent liabilities

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to an independent trade debtor	**9,695**	9,690

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2012 and 30th June, 2013 is insignificant and of low applicable default risk. Accordingly, the Group has not recognised any liability in the condensed consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

The concerns over the withdrawal of quantitative easing policy by the US Federal Reserve and the effects of high unemployment rates in Europe continue to dampen consumer confidence in major markets of the Group's ODM division. Although the order book remains stable at about three months of sales orders, the Group does not anticipate any significant rebound in market demand for its products in the second half of the year.

The Group will devote more resources to increase the proportion of revenue contribution of its distribution division. Despite the market downturn, this division has achieved satisfactory growth in recent years. Performance of this division is vital to our long term growth as house brand products carry higher profit margins and allow greater control over the supply chain to the Group.

Our profit margin will continue to be under pressure due to the rise in labour costs and appreciation of Renminbi as well as increase in depreciation charges during the production relocation process. The minimum wages in Shenzhen increased by 7% in March 2013 whereas the minimum wages in other areas of Guangdong province went up by an average of 19% in May 2013. Renminbi has also appreciated by 2% against both US dollar and Hong Kong dollar since the beginning of this year. Modest price adjustments to the Group's products can only absorb part of the cost pressure and the management is contemplating and implementing various efficiency enhancement projects on different areas of our operations.

The Group continues to execute its production relocation plan from its existing factory in Long Gang Area, Shenzhen City to the two new factories in Pingdi Town, Shenzhen City and Heyuan City. The project is being implemented in phases to guarantee the rendering of quality service to our customers. The Group has also submitted its proposal on the future development of the land occupied by the existing factory in Long Gang Area to the relevant bureau of the Shenzhen municipal government and is waiting for its decision.

The management continues to review critically the efficiency and effectiveness of utilization of financial resources of the Group. The disposal of two subsidiaries holding two parcels of unutilised land in mainland China in August 2013 will release the capital employed in immovable property and enhance the working capital position as well as improve the return on capital of the Group.

The problems facing the Group are not unique. We must remain efficient, flexible and vigilant. The management is confident that through leveraging on its financial and human resources, we can overcome the challenges ahead and remain competitive as a leading player in this industry.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2013, the Group employed approximately 9,800 (31st December, 2012: 10,200) 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 coverage, subsidised educational and training programmes as well as provident fund schemes.

CORPORATE GOVERNANCE

The Company had complied with all applicable code provisions set out in the Corporate Governance Code (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, 2013, 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 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 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) 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 condensed consolidated financial statements for the six months ended 30th June, 2013 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. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive Directors and senior management and review of the remuneration policy of the Group.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and determining the policy, nomination procedures and process and criteria for the nomination of Directors.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2013.

PUBLICATION OF INTERIM REPORT

The 2013 interim report will be despatched to the shareholders of the Company and will also be 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 10th September, 2013.

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 of whom are independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 29th August, 2013