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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, 2017**

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, 2017 together with comparative figures for the corresponding period in 2016.

FINANCIAL HIGHLIGHTS		
	Six months ended 30th June,	
	2017	2016
Revenue	HK\$528,830,000	HK\$641,458,000
Loss attributable to owners of the Company	HK\$(65,441,000)	HK\$(321,147,000)
Loss per share	(17.06) HK cents	(83.71) HK cents
Interim dividend per share	Nil	Nil
Special dividend per share	2.0 HK cents	3.8 HK cents

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2017

		Six months ended	
	<i>Notes</i>	30.6.2017	30.6.2016
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	528,830	641,458
Cost of sales		(452,439)	(526,972)
Gross profit		76,391	114,486
Other income		16,350	6,788
Other gains and losses		13,618	21,771
Gain on disposal of a subsidiary	4	29,208	–
Distribution and selling expenses		(16,856)	(11,752)
Administrative expenses		(175,758)	(446,438)
Other expenses		(504)	(636)
Finance costs	5	(2,941)	(1,398)
Share of profit of an associate		4,886	3,146
Share of loss of a joint venture		(4)	(218)
Loss before tax		(55,610)	(314,251)
Income tax expense	6	(6,658)	(3,249)
Loss for the period	7	(62,268)	(317,500)
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		54,029	(9,650)
Release of exchange reserve upon disposal of a subsidiary		1,691	–
Total comprehensive expense for the period		(6,548)	(327,150)
(Loss) profit for the period attributable to:			
Owners of the Company		(65,441)	(321,147)
Non-controlling interests		3,173	3,647
		(62,268)	(317,500)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(10,095)	(329,970)
Non-controlling interests		3,547	2,820
		(6,548)	(327,150)
Loss per share	9		
– Basic		(17.06) HK cents	(83.71) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2017

	Notes	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current Assets			
Investment properties		148,090	141,480
Property, plant and equipment		1,160,368	1,084,173
Prepaid lease payments		49,131	64,472
Deposits paid for acquisition of property, plant and equipment		1,331	1,692
Intangible assets		13,142	13,128
Goodwill		7,908	7,455
Interest in an associate		27,802	25,195
Interest in a joint venture		–	–
Loan receivable		–	–
Other receivables		1,505	1,400
Deferred tax assets		197	186
		<u>1,409,474</u>	<u>1,339,181</u>
Current Assets			
Inventories		132,137	162,882
Debtors, deposits and prepayments	10	277,568	357,449
Other receivables		960	894
Prepaid lease payments		1,253	1,467
Derivative financial instruments		–	128
Tax recoverable		2,702	2,647
Short-term bank deposits		314,368	555,855
Bank balances and cash		144,385	73,234
		<u>873,373</u>	<u>1,154,556</u>
Current Liabilities			
Creditors and accrued charges	11	385,546	424,953
Bank borrowings	12	144,257	218,857
Tax liabilities		11,282	2,347
		<u>541,085</u>	<u>646,157</u>
Net Current Assets		<u>332,288</u>	<u>508,399</u>
Total Assets less Current Liabilities		<u><u>1,741,762</u></u>	<u><u>1,847,580</u></u>
Capital and Reserves			
Share capital		38,365	38,365
Reserves		1,675,703	1,781,710
Equity attributable to owners of the Company		1,714,068	1,820,075
Non-controlling interests		20,064	16,517
Total Equity		<u>1,734,132</u>	<u>1,836,592</u>
Non-current Liabilities			
Deferred tax liabilities		7,630	10,988
		<u><u>1,741,762</u></u>	<u><u>1,847,580</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2017

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.

Significant event and transaction in the current interim period

During the six months ended 30th June, 2017, the Group has disposed of the entire equity interest in a wholly-owned subsidiary, 惠州市藝駿房地產開發有限公司 (known as “Huizhou Yijun Real Estate Development Company Limited”) (“Yijun”), to an independent third party at a consideration RMB45,000,000 (equivalent to approximately HK\$51,838,000), details of which are disclosed in note 4.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

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, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to 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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31st December, 2017.

3. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses 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 operating and reportable segment for the period under review:

For the six months ended 30th June, 2017

	Europe	United States	Asia	Other regions	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Revenue</i>					
External sales	<u>277,620</u>	<u>168,299</u>	<u>64,984</u>	<u>17,927</u>	<u>528,830</u>
<i>Result</i>					
Segment loss	<u>(5,118)</u>	<u>(8,212)</u>	<u>(5,507)</u>	<u>(37)</u>	(18,874)
Unallocated income and gains					15,767
Unallocated corporate expenses and losses					(90,478)
Gain on disposal of a subsidiary					29,208
Interest income on bank deposits					6,826
Finance costs					(2,941)
Share of profit of an associate					4,886
Share of loss of a joint venture					(4)
Loss before tax					<u>(55,610)</u>

For the six months ended 30th June, 2016

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<i>Revenue</i>					
External sales	<u>406,218</u>	<u>160,741</u>	<u>65,831</u>	<u>8,668</u>	<u>641,458</u>
<i>Result</i>					
Segment (loss) profit	<u>(167,820)</u>	<u>(88,071)</u>	<u>(24,012)</u>	<u>881</u>	(279,022)
Unallocated income and gains					22,945
Unallocated corporate expenses and losses					(59,803)
Interest income on bank deposits					99
Finance costs					(1,398)
Share of profit of an associate					3,146
Share of loss of a joint venture					<u>(218)</u>
Loss before tax					<u>(314,251)</u>

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, property rental income, increase in fair value of investment properties, finance costs, gain on disposal of a subsidiary, interest income on bank deposits, share of profit of an associate, share of loss of a joint venture and impairment loss of investment in a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

4. DISPOSAL OF A SUBSIDIARY

On 1st June, 2017, 宏懋金屬製品(深圳)有限公司 (known as “Hongmao Metal Products (Shenzhen) Company Limited”) (“Hongmao”), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the “Equity Transfer Agreement”) with an independent third party (the “Purchaser”). Pursuant to the Equity Transfer Agreement, Hongmao agreed to sell and the Purchaser agreed to purchase the entire equity interest in Yijun, a wholly-owned subsidiary of Hongmao, at a consideration of RMB45,000,000 (equivalent to approximately HK\$51,838,000). The consideration was determined after arm’s length negotiation between Hongmao and the Purchaser and the transaction was completed on 28th June, 2017.

Yijun is principally engaged in property holding. The principal asset owned by Yijun is two parcels of land located at Dong Feng Village, Xinxu Town, Huizhou City, Guangdong Province, the People’s Republic of China (the “PRC”) with a total site area of approximately 24,893.90 square metres.

Gain on disposal of a subsidiary:

	<i>HK\$’000</i>
Consideration	51,838
Net assets disposed of	(20,939)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on disposal of a subsidiary	<u>(1,691)</u>
Gain on disposal	<u><u>29,208</u></u>

5. FINANCE COSTS

	Six months ended	
	30.6.2017	30.6.2016
	<i>HK\$’000</i>	<i>HK\$’000</i>
Interests on bank borrowings	<u><u>2,941</u></u>	<u><u>1,398</u></u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	<u>1,914</u>	<u>1,174</u>
The PRC Enterprise Income Tax		
– Current year	<u>7,202</u>	<u>23</u>
– (Over)underprovision in respect of prior year	<u>(497)</u>	<u>2</u>
	<u>6,705</u>	<u>25</u>
United Kingdom Corporation Tax		
– Current year	<u>925</u>	<u>1,211</u>
France Corporation Tax		
– Current year	<u>472</u>	<u>843</u>
Deferred taxation		
– Current year	<u>(3,358)</u>	<u>(4)</u>
	<u>6,658</u>	<u>3,249</u>

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 the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% (2016: 20%) in accordance with the relevant law and regulations in the United Kingdom.

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for both periods.

In relation to 50:50 apportionment 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 of the Company (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.

7. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	933	991
Allowance for doubtful debts, net (included in distribution and selling expenses)	3,003	1,078
Cost of inventories recognised as an expense (included allowance for inventories of HK\$902,000 (2016: HK\$7,752,000))	452,439	526,972
Depreciation of property, plant and equipment	96,419	72,889
Decrease (increase) in fair values of derivative financial instruments	216	(581)
Gain on disposal of property, plant and equipment	(101)	–
Increase in fair values of investment properties	(6,610)	–
Net foreign exchange gains (included in other gains and losses)	(7,189)	(21,190)
Release of prepaid lease payments	722	887
Net economic compensation expense	–	286,626
Gross rental income from investment properties (included in other income)	(1,559)	(1,756)
Less: direct expenses of investment properties that generated rental income during the period	440	339
	<u>(1,119)</u>	<u>(1,417)</u>

8. DIVIDENDS

	Six months ended	
	30.6.2017	30.6.2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Second special dividend paid of 25.0 HK cents in respect of 2016 (2016: 3.8 HK cents in respect of 2015) per share	<u>95,912</u>	<u>14,579</u>

The Board has resolved not to declare any interim dividend, but has resolved to declare a special dividend of 2.0 HK cents per share for the six months ended 30th June, 2017 on 30th August, 2017.

During the six months period ended 30th June, 2017, the Board did not recommend the payment of a final dividend in respect of 2016 (2016: nil in respect of 2015) and resolved to recommend a second special dividend of 25.0 HK cents (2016: 3.8 HK cents in respect of 2015) per share, amounting to HK\$95,912,000 (2016: HK\$14,579,000 in respect of 2015), for the year ended 31st December, 2016.

9. LOSS PER SHARE

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

	Six months ended	
	30.6.2017	30.6.2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the purpose of basic loss per share		
– Loss for the period attributable to owners of the Company	<u>(65,441)</u>	<u>(321,147)</u>
	<i>Number of shares</i>	
Number of shares for the purpose of basic loss per share	<u>383,650,000</u>	<u>383,650,000</u>

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

10. 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\$261,107,000 and HK\$2,366,000 respectively (31st December, 2016: HK\$348,087,000 and HK\$1,242,000 respectively). 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 which approximated the respective revenue recognition dates:

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
0 – 90 days	183,489	262,459
91 – 180 days	71,795	84,150
More than 180 days	5,823	1,478
	<u>261,107</u>	<u>348,087</u>

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

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
0 – 90 days	1,805	1,242
91 – 180 days	561	–
	<u>2,366</u>	<u>1,242</u>

11. CREDITORS AND ACCRUED CHARGES

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
Trade creditors	79,629	106,587
Other creditors and accrued charges	305,917	318,366
	<u>385,546</u>	<u>424,953</u>

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
0 – 60 days	62,675	88,999
61 – 120 days	14,054	16,007
More than 120 days	2,900	1,581
	<u>79,629</u>	<u>106,587</u>

12. BANK BORROWINGS

	30.6.2017 HK\$'000	31.12.2016 HK\$'000
Bank borrowings:		
– Secured	144,257	171,797
– Unsecured	–	47,060
	<u>144,257</u>	<u>218,857</u>
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	111,013	102,162
– more than one year, but not exceeding two years	5,314	86,071
– more than two years, but not exceeding five years	16,780	16,564
– more than five years	11,150	14,060
	<u>144,257</u>	<u>218,857</u>
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(144,257)</u>	<u>(218,857)</u>
Amounts due after one year shown under non-current liabilities	<u>–</u>	<u>–</u>

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. Bank borrowings of HK\$28,960,000 (31st December, 2016: HK\$30,880,000) and HK\$60,000,000 (31st December, 2016: HK\$60,000,000) are secured by the Group's investment properties, leasehold land and buildings with aggregate carrying amount of HK\$149,381,000 (31st December, 2016: HK\$142,797,000) and carry interests at Hong Kong Prime Rate less 2.6% and one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% respectively.

A bank borrowing of HK\$9,464,000 (31st December, 2016: HK\$10,084,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$32,158,000 (31st December, 2016: HK\$32,730,000) and carries interest at one-month HIBOR plus 1.8%.

A bank borrowing of HK\$45,833,000 (31st December, 2016: HK\$70,833,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$36,560,000 (31st December, 2016: HK\$37,232,000) (including leasehold land and buildings with carrying amount of HK\$32,158,000 (31st December, 2016: HK\$32,730,000) as mentioned above) and carries interest at one-month HIBOR plus 2.9%.

At 31st December, 2016, unsecured bank borrowings of HK\$47,060,000 carried interests at HIBOR plus certain basis points.

DIVIDENDS

The Board has resolved not to declare any interim dividend (2016: nil), but has resolved to declare a special dividend of 2.0 HK cents (2016: 3.8 HK cents) per share for the six months ended 30th June, 2017. The special dividend will be payable on or about 17th October, 2017 to shareholders whose names appear on the register of members of the Company on 4th October, 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3rd October, 2017 to 4th October, 2017, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 29th September, 2017 in order to qualify for the special dividend mentioned above.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 18% to HK\$528.8 million during the six months ended 30th June, 2017 (2016: HK\$641.5 million). A loss of HK\$65.4 million was incurred during the period under review (2016: HK\$321.1 million). Loss per share was 17.06 HK cents (2016: 83.71 HK cents).

During the period under review, a gain of HK\$29.2 million was recorded as a result of disposal of 惠州市藝駿房地產開發有限公司 (Huizhou Yijun Real Estate Development Company Limited) ("Yijun"), a wholly-owned subsidiary of the Group.

Result in significant loss for the period under review mainly attributed to the higher depreciation charges on the building and leasehold improvement after relocation to the new factory in Pingdi Town of Shenzhen City. Moreover, the negative impact on the profitability of the Group arising from diseconomies of scale due to the decline in revenue and continuous increase in labour rates and other operating costs in Mainland China in the first half of 2017. Gross margin ratio (being the ratio of gross profit to revenue) declined moderately from 18% in the first half of 2016 to 14% in the first half of 2017. In response to all these adverse business environment, the management team has focused on improving its operational efficiency, stringent control over both overhead and staff costs.

Original design manufacturing (“ODM”) division

Revenue generated by the ODM division contributed 77% to the consolidated revenue of the Group in the period under review (2016: 82%). Sales to ODM customers decreased by 23% from HK\$527.2 million in the first six months of 2016 to HK\$405.0 million in the first six months of 2017. Geographically, sales to Europe, the United States (the “US”), Asia and other regions accounted for 50%, 39%, 11% and 0% respectively (2016: 62%, 29%, 8% and 1% respectively) of the revenue of the ODM division during the period under review. Significant reduction in sales in European market was mainly due to one of our major European customers had changed her purchasing strategy from outsourcing to self-production during the first half of the year. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 53%, 45% and 2% respectively of the revenue of this division during the first half of 2017 (2016: 55%, 43% and 2% respectively).

Distribution division

The Group’s house brand and licensed brand products were sold to retailers through the Group’s wholesale arms in the United Kingdom, France and independent distributors in other countries. In January 2017, the Group established a new distribution company in South Africa to further expand our brand influence to the African market. Revenue of the distribution division increased moderately by 9% to HK\$123.8 million (2016: HK\$113.3 million) and accounted for 23% (2016: 18%) of the consolidated revenue during the first six months of 2017. Sales to Europe, Asia, the US and other regions accounted for 60%, 18%, 7% and 15% respectively of the revenue of the distribution division in the period under review (2016: 67%, 19%, 7% and 7% respectively). Significant growth in sales in the other regional markets was mainly driven by the increased penetration of STEPPER frames in South American and South African markets.

Financial position and liquidity

Cash flows

Capital expenditure remained high during the period under review and amounted to HK\$136.8 million (2016: HK\$187.1 million). The above cash outflows were financed by the sales proceed from disposal of Yijun amounting to RMB45.0 million (equivalent to approximately HK\$51.8 million) and internal resources of the Group.

Working capital management

In line with the decline in revenue during the period under review, inventory balances and total amounts of trade debtors and bills receivable balances decreased by 19% and 25% from HK\$162.9 million and HK\$349.3 million as at 31st December, 2016 to HK\$132.1 million and HK\$263.5 million as at 30th June, 2017 respectively. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased from 60 days in the first half of 2016 to 53 days in the period under review due to tightened control over inventories. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) remained stable at 90 days for the first half of 2016 and 91 days for the period under review. As the final portion of capital expenditure for the relocation of its factory has been paid by the Group, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.8 to 1.0 as at 31st December, 2016 to 1.6 to 1.0 as at 30th June, 2017. We expect the current ratio will become stable in the second half of the year.

Gearing position

Despite the substantial loss incurred by the Group in the first six months of 2017, the Group's gearing position remained low throughout the period under review. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at 0.4% as at 30th June, 2017 (31st December, 2016: 0.6%). The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$7.6 million as at 30th June, 2017 (31st December, 2016: HK\$11.0 million).

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2017 and 31st December, 2016 with equity attributable to owners of the Company amounting to HK\$1,714.1 million and HK\$1,820.1 million as at 30th June, 2017 and 31st December, 2016 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, 2017 was HK\$4.47 (31st December, 2016: HK\$4.74).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the 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 dollars, Hong Kong dollars or Renminbi and exchange rate movements between the US dollar and the Hong Kong dollar were relatively stable during the period under review.

PROSPECTS

Market outlook

Looking forward, the second half of the 2017 will be challenging and the Group expects the market demand will be weakened because of the uncertain impact on the European countries brought by the Brexit event. The possible upward movement in the US interest rate and the uncertainty raised after the US presidential election which will continue to affect the general market sentiment of its key ODM markets. The Group will continue to work closely with its customers to provide value creation solutions to their supply chains. In addition, the Group will continue to run the business cautiously until recovery of the market momentum.

The moderate increase in sales volume of the distribution division demonstrates its growing importance in the future development of the Group. The Group will continue to seek business opportunities to increase the contribution of this business either through establishment of our own network or forming joint venture with strategic distribution partner(s).

Margin pressure

Operating costs in Mainland China will continue to rise and put pressure on the Group's margin. The new production facility in Pingdi Town of Shenzhen City is well-equipped with modern technology and the management is implementing various projects to improve its operational efficiency. To cope with increasing demand for low-price products, the Group is adjusting capacities which specialize in manufacturing of low-price products with few models and high volume. The profit margin will be improved along with the increase of production volume.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2017, the Group employed approximately 5,700 (31st December, 2016: 7,500) full time staff in Mainland China, Hong Kong, Europe and South Africa. 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 has 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, 2017, 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. The Board intends to maintain this structure in future as it believes that this 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 the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company.

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, 2017.

REVIEW OF INTERIM RESULTS

The unaudited interim results and the interim report of the Group for the six months ended 30th June, 2017 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM REPORT

The 2017 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 in mid-September 2017.

DIRECTORS

As at the date of this announcement, the Board comprises five directors, two of whom are executive directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three 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, 30th August, 2017