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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, 2014

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, 2014 together with comparative figures for the corresponding period in 2013.

FINANCIAL HIGHLIGHTS		
	Six months ended 30th June,	
	2014	2013
Revenue	HK\$772,154,000	HK\$706,725,000
Profit attributable to the owners of the Company	HK\$5,350,000	HK\$18,170,000
Earnings per share	1.4 HK cents	4.7 HK cents
Interim dividend per share	0.7 HK cents	2.5 HK cents
Special dividend per share	3.1 HK cents	Nil

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2014

		Six months ended 30.6.2014 HK\$'000 (unaudited)	30.6.2013 HK\$'000 (unaudited)
	Notes		
Revenue	3	772,154	706,725
Cost of sales		(646,234)	(569,949)
Gross profit		125,920	136,776
Other income		7,106	10,522
Other gains and losses		5,879	1,830
Distribution and selling expenses		(13,067)	(10,945)
Administrative expenses		(116,574)	(111,722)
Other expenses		(392)	(408)
Finance costs	4	(551)	(724)
Share of profit (loss) of a joint venture		162	(198)
Profit before tax		8,483	25,131
Income tax expense	5	(2,754)	(6,406)
Profit for the period	6	5,729	18,725
Other comprehensive (expense) income:			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(19,291)	11,314
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		17,678	—
Total comprehensive income for the period		4,116	30,039
Profit for the period attributable to:			
Owners of the Company		5,350	18,170
Non-controlling interests		379	555
		5,729	18,725
Total comprehensive income for the period attributable to:			
Owners of the Company		3,714	29,499
Non-controlling interests		402	540
		4,116	30,039
Earnings per share	8		
– Basic		1.4 HK cents	4.7 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2014

	Notes	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Non-current Assets			
Investment properties		62,780	—
Property, plant and equipment		721,537	745,286
Prepaid lease payments		61,965	57,601
Deposits paid for acquisition of property, plant and equipment		4,077	359
Intangible assets		4,680	4,680
Interest in a joint venture		4,906	4,825
Loan receivable		11,938	13,067
Available-for-sale investment		5,858	5,858
Deferred tax assets		1,320	114
		<u>879,061</u>	<u>831,790</u>
Current Assets			
Inventories		189,673	208,148
Debtors, deposits and prepayments	9	430,529	422,589
Loan to a joint venture		519	739
Loan receivable		2,248	1,125
Prepaid lease payments		1,482	1,420
Short-term bank deposits		—	14,357
Bank balances and cash		180,768	197,010
		<u>805,219</u>	<u>845,388</u>
Current Liabilities			
Creditors and accrued charges	10	296,141	298,750
Bank borrowings		53,225	41,884
Tax liabilities		8,202	3,275
		<u>357,568</u>	<u>343,909</u>
Net Current Assets		<u>447,651</u>	<u>501,479</u>
Total Assets less Current Liabilities		<u><u>1,326,712</u></u>	<u><u>1,333,269</u></u>
Capital and Reserves			
Share capital		38,365	38,365
Reserves		1,271,684	1,278,019
Equity attributable to owners of the Company		1,310,049	1,316,384
Non-controlling interests		7,660	6,800
Total Equity		1,317,709	1,323,184
Non-current Liabilities			
Deferred tax liabilities		9,003	10,085
		<u><u>1,326,712</u></u>	<u><u>1,333,269</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2014

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 for investment properties, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2013, except for property, plant and equipment, investment properties, leasing and taxation as detailed below.

In the current interim period, the Group has applied, for the first time, the following interpretation and 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 HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

The application of the above interpretation and 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.

Property, plant and equipment

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Leasing

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Taxation

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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, 2014

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<i>Revenue</i>					
External sales	<u>478,255</u>	<u>207,242</u>	<u>72,120</u>	<u>14,537</u>	<u>772,154</u>
<i>Result</i>					
Segment profit	<u>21,306</u>	<u>7,913</u>	<u>3,812</u>	<u>672</u>	<u>33,703</u>
Unallocated income					743
Unallocated corporate expenses					(25,784)
Interest income on bank deposits					210
Finance costs					(551)
Share of profit of a joint venture					<u>162</u>
Profit before tax					<u>8,483</u>

For the six months ended 30th June, 2013

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

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' emoluments, investment income, finance costs and share of profit or 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	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	6	132
Interest on bank borrowings wholly repayable after five years	545	592
	<u>551</u>	<u>724</u>

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	4,982	5,530
The People's Republic of China (the "PRC")		
Enterprise Income Tax		
– Current year	32	10
– Underprovision in respect of prior year	29	–
Deferred taxation		
– Current year	(2,289)	866
	<u>2,754</u>	<u>6,406</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 review.

PRC Enterprise Income Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in the PRC.

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.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	646,234	569,949
Depreciation of property, plant and equipment	48,248	51,393
Dividend income from available-for-sale investment	(550)	(168)
Loss on disposal of property, plant and equipment	3	15
Net foreign exchange gains (included in other gains and losses)	(5,882)	(1,845)
Release of prepaid lease payments	688	766
Allowance for doubtful debts, net (included in distribution and selling expenses)	1,640	245
Rental income from investment properties (included in other income)	(193)	—
Less: Outgoings	191	—
	<u> </u>	<u> </u>
	(2)	—
	<u> </u>	<u> </u>

7. DIVIDENDS

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Final dividend paid of 2.5 HK cents in respect of 2013 (2013: 2.5 HK cents in respect of 2012) per share	9,591	9,591
	<u> </u>	<u> </u>

An interim dividend of 0.7 HK cents and a special dividend of 3.1 HK cents in respect of 2014 (2013: interim dividend of 2.5 HK cents) per share amounting to a total of HK\$14,579,000 (2013: HK\$9,591,000) has been declared by the board of Directors on 28th August, 2014.

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	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share		
– Profit for the period attributable to owners of the Company	5,350	18,170
	=====	=====
	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\$423,796,000 and HK\$2,300,000 respectively (31st December, 2013: HK\$410,638,000 and HK\$2,643,000 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:

	30.6.2014	31.12.2013
	HK\$'000	HK\$'000
0 – 90 days	357,604	303,564
91 – 180 days	66,192	106,504
More than 180 days	–	570
	=====	=====
	423,796	410,638
	=====	=====

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:

	30.6.2014	31.12.2013
	HK\$'000	HK\$'000
0 - 90 days	1,852	2,415
91 - 180 days	448	228
	=====	=====
	2,300	2,643
	=====	=====

10. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$152,512,000 (31st December, 2013: HK\$154,984,000). The following is an aged analysis of trade creditors based on the invoice date at the end of the reporting period:

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
0 - 60 days	104,606	107,609
61 - 120 days	46,102	44,109
More than 120 days	1,804	3,266
	<u>152,512</u>	<u>154,984</u>

11. EVENTS AFTER THE REPORTING PERIOD

(a) Stepper UK

On 16th July, 2014, Stepper Eyewear Limited ("Stepper"), a non wholly-owned subsidiary of the Company, entered into a share purchase agreement with Rayner & Keeler Limited (the "Vendor"), an independent third party, pursuant to which the Vendor agreed to sell and Stepper agreed to purchase the entire issued share capital of Stepper (UK) Limited ("Stepper UK") (the "Acquisition"), for a consideration of £2,517,230. On the same date, the parties also entered into a debt assignment deed, pursuant to which the Vendor irrevocably assigned the benefit of the intercompany balance due from Stepper UK to the Vendor (the "Debt") at par value to Stepper, for a consideration of £214,490. The aggregate consideration for the Acquisition and the assignment of the Debt was £2,731,720 (equivalent to approximately HK\$36,285,000) and has been determined by the parties at arm's length negotiations. The aggregate consideration was funded out of Stepper's internal resources. Completion of the transaction took place on 16th July, 2014 and Stepper UK became a non wholly-owned subsidiary of the Company. Stepper UK has been the distributor for optical frames under the Group's owned brand "STEPPER" in UK since 2000. The Acquisition provides a good opportunity for the Group to further expand its global distributor network of its owned brands products.

Details of this transaction are set out in an announcement of the Company dated 16th July, 2014.

(b) Argent Urban Renewal Project

On 15th August, 2014, Argent Optical Manufactory Limited (“Argent”), an indirect wholly-owned subsidiary of the Company, 深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) (“Kaisa Property”) and 佳兆業集團 (深圳) 有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) (“Kaisa Shenzhen”) (both were independent third parties) entered into a relocation agreement in relation to, among others, the proposed disposal of Argent’s interest in the urban renewal project titled “龍崗區龍城街道雅駿眼鏡廠更新單元規劃” (“Longgang District Longcheng Street Argent Optical Manufactory Urban Renewal Project”) (the “Argent Urban Renewal Project”) (the “Relocation Agreement”). Pursuant to the Relocation Agreement, Kaisa Property shall pay a consideration in the amount of RMB1,579,700,000 (equivalent to approximately HK\$1,989,500,000) to Argent while Argent shall transfer its interest in the Argent Urban Renewal Project to Kaisa Property. On the same day, each of Mr. Ng Hoi Ying, Michael (a Director and Chairman of the Company), Mr. Ng Kim Ying (a Director), Mr. Li Chi Hung (a member of the senior management of the Company) and Mr. Hung Chao Chia (a member of the senior management of the Company) entered into individual relocation agreements with Kaisa Property and Kaisa Shenzhen in respect of facilitating Kaisa Property to become the named developer of the Argent Urban Renewal Project and the disposal of their owned land and premises respectively (the “Individual Relocation Agreements”), for an aggregate consideration of RMB220,300,000 (equivalent to approximately HK\$277,500,000). The Relocation Agreement is conditional upon obtaining shareholders’ approval for the disposal. The completion of each of the Individual Relocation Agreements is subject to the completion of the Relocation Agreement.

Additionally, on 15th August, 2014, Argent entered into a service agreement with 深圳市全聯行地產顧問有限公司 (Shenzhen Quanlianhang Property Consulting Co., Ltd.) (“QLH Property”), an independent third party, for the provision of consultation services by QLH Property to Argent in relation to the sale of the Argent Urban Renewal Project (the “Service Agreement”) for a service fee of RMB117,000,000 (equivalent to approximately HK\$147,400,000). Payment pursuant to the Service Agreement is subject to, among other things, the Relocation Agreement obtaining shareholders’ approval.

Details of these transactions are set out in an announcement of the Company dated 19th August, 2014.

DIVIDEND

The Board has resolved to declare an interim dividend of 0.7 HK cents per share and a special dividend of 3.1 HK cents per share for the six months ended 30th June, 2014 (2013: interim dividend of 2.5 HK cents per share). The interim dividend and special dividend will be payable on or about 5th November, 2014 to shareholders whose names appear on the register of members of the Company on 27th October, 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th October, 2014 to 27th October, 2014, 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 23rd October, 2014 in order to qualify for the interim dividend and special dividend mentioned above.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 9% to HK\$772.2 million in the six months ended 30th June, 2014 (2013: HK\$706.7 million). Both the profit attributable to owners of the Company and basic earnings per share decreased by 70% to HK\$5.4 million and 1.4 HK cents respectively in the period under review (2013: HK\$18.2 million and 4.7 HK cents respectively).

The significant increases in labour and other operating costs in China continued to put pressure on the gross margin of the Group. The statutory minimum wage in Shenzhen City where the Group's main manufacturing facilities were located increased by 13% in February 2014. As a result, the gross profit ratio (being the ratio of gross profit to revenue) of the Group declined by 3.1% from 19.4% in the first half of 2013 to 16.3% in the corresponding period of 2014. Although the Group managed to cut down its 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) by 0.6% from 17.5% to 16.9%, the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) still decreased by 1.9% from 2.6% for the first half of 2013 to 0.7% for the period under review principally as a result of the decline in gross margin ratio.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed 91% of the consolidated revenue of the Group in the six months ended 30th June, 2014 (2013: 90%). Although market sentiment in all major market segments remained weak in 2014, the Group benefited from the increased emphasis placed by its major ODM customers on the reliability of

supply chain which resulted in the consolidation of their vendor portfolio. Accordingly, sales to ODM customers increased by 11% from HK\$633.7 million in the first half of 2013 to HK\$702.8 million in the first six months of 2014. Increases in turnover was recorded in all major ODM markets, including Europe, the United States (the “US”) and Asia. Geographically, sales to Europe, the US, Asia and other regions accounted for 63%, 29%, 7% and 1% respectively (2013: 69%, 26%, 4% and 1% respectively) of the revenue of the ODM division in the period under review. 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 50%, 48% and 2% respectively of the revenue of this division during the period under review (2013: 51%, 46% and 3% respectively).

Distribution and retailing divisions

Revenue generated by sale of house brand and licensed brand products through the designated distributors of the distribution division accounted for 9% of the consolidated revenue of the Group in the first half of 2014 (2013: 10%). Revenue of the distribution division decreased modestly by 4% from HK\$71.3 million in the first half of 2013 to HK\$68.2 million in the first half of 2014. Growth in sales was recorded in all market segments except for South America and Africa. Sales to Europe, Asia and other regions accounted for 46%, 31% and 23% respectively of the revenue of the distribution division in the first six months of 2014 (2013: 44%, 25% and 31% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division declined from HK\$1.7 million in the first half of 2013 to HK\$1.2 million in the corresponding period of 2014 as the retailing market in Shenzhen remained weak.

Financial position and liquidity

Cash flows

The Group generated a net cash inflow from operating activities of HK\$63.0 million during the period under review (2013: HK\$66.7 million). Capital expenditure increased significantly from HK\$32.3 million in the first six months of 2013 to HK\$94.9 million in the period under review as the Group completed the acquisition of its office in Hong Kong with a total cost of HK\$35.6 million and incurred additional capital expenditure in preparation of its factory relocation in the first half of 2014. Total dividend payments of HK\$9.6 million were made (2013: HK\$10.6 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) decreased from HK\$169.5 million as at 31st December, 2013 to HK\$127.5 million as at 30th June, 2014.

Working capital management

As a result of the strenuous efforts made by the Group including the streamlining of internal operations and installations of advanced semi-automated equipment, inventory turnover period (being the ratio of inventory balances to cost of sales) decreased from 57 days in the first half of 2013 to 54 days in the first half of 2014. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 95 days in the first six months of 2013 to 101 days in the first six months of 2014 as a higher proportion of sales was made in the second quarter of 2014 as compared to that of 2013. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.5 to 1.0 as at 31st December, 2013 to 2.3 to 1.0 as at 30th June, 2014, as a result of the decrease in net cash position of the Group.

Gearing position

The Group's gearing position remained low throughout the first six months of 2014. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at less than 1% as at both 30th June, 2014 and 31st December, 2013. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$9.0 million as at 30th June, 2014 (31st December, 2013: HK\$10.1 million).

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2014 and 31st December, 2013 with an equity attributable to owners of the Company amounting to HK\$1,310.0 million and HK\$1,316.4 million as at 30th June, 2014 and 31st December, 2013 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, 2014 was HK\$3.41 (31st December, 2013: HK\$3.43).

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 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.

Charges on the Group's assets

As at 30th June, 2014, all of the Group's bank borrowings were secured by the Group's leasehold land and buildings with carrying amount of HK\$82.8 million (31st December, 2013: HK\$93.6 million) as well as the Group's investment properties with carrying amount of HK\$62.8 million (31st December, 2013: Nil).

PROSPECTS

The business environment of the Group's major ODM markets remains soft. Concerns over the geo-political tensions in Europe and the Middle East also affect the procurement confidence of the customers. Despite this, the Group's order book remains stable at about three months of sales orders as a result of the continuous consolidation of the supply chain by major ODM customers.

Cost containment is another major challenge to the Group. Increase in labour and operating costs in mainland China will continue to put pressure on our group margin. Any effect of modest price adjustments can only alleviate part of the cost problems in the short term. In the longer term, the Group will tackle these problems by further improvement of operational efficiency after factory relocation and increase in sales of higher margin house brands products.

The Group announced on 19th August, 2014 that it had entered into a relocation agreement in relation to the disposal of its interest in the Argent Urban Renewal Project, resulting in the disposal of the land situated in Longgang District, Shenzhen City and the buildings erected thereon. The Group believes that the factory relocation as a result of this disposal represents a good opportunity for the Group to upgrade and modernize its production facilities in its newly established factories in Heyuan City and Pingdi Town, Shenzhen City. As the relocation is expected to complete in the second half of 2015, the Group anticipates that there will be no material disruption to its manufacturing operations.

The Group's interest in Trenti Industria Occhiali S.r.l. ("Trenti") will increase from 13% to 50% upon completion of its subscription as well as its acquisition of additional quotas in this Italian company in late August 2014. This strategic alliance presents opportunities to the customers of both ODM and distribution divisions to source "Made in Italy" products by leveraging the combined design and product development as well as manufacturing capabilities of the Group and Trenti.

The Group continues to invest in its distribution division as its house brand products carry higher profit margins and allow greater control over the supply chain to the Group. The acquisition of the entire shareholding of Stepper (UK) Limited, the distributor for "STEPPER" eyewear in the United Kingdom, in July 2014 provides a good opportunity for the Group to further expand its global distributor network of its own brand products. The Group has also commenced the distribution of "STEPPER" eyewear by its subsidiary incorporated in France which has taken over the business of its distributor in France, Belgium and Luxembourg with effect from August 2014.

The Group will continue its strategy of focusing on its core business of eyewear manufacturing and distribution, continuous investment in strategic areas for improvement in its overall competitiveness and maintaining a solid and liquid financial position.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2014, the Group employed approximately 11,000 (31st December, 2013: 9,800) 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, 2014, 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 the 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, 2014 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, 2014.

PUBLICATION OF INTERIM REPORT

The 2014 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, 2014.

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. 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, 28th August, 2014