Arts Group

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, 2016

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, 2016 together with comparative figures for the corresponding period in 2015.

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,	
	2016	2015
Revenue	**HK$641,458,000**	HK$726,484,000
(Loss) profit attributable to the owners of the Company	**HK$(321,147,000)**	HK$1,264,000
(Loss) earnings per share	**(83.71) HK cents**	0.33 HK cent
Interim dividend per share	**Nil**	Nil
Special dividend per share	**3.8 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, 2016

	Notes	Six months ended 30.6.2016 HK$'000 (unaudited)	30.6.2015 HK$'000 (unaudited)
Revenue	3	**641,458**	726,484
Cost of sales		**(526,972)**	(588,762)
Gross profit		**114,486**	137,722
Other income		**6,788**	17,425
Other gains and losses		**21,771**	17,725
Distribution and selling expenses		**(11,752)**	(14,629)
Administrative expenses		**(446,438)**	(149,068)
Other expenses		**(636)**	(458)
Finance costs	4	**(1,398)**	(1,048)
Share of profit of an associate		**3,146**	413
Share of loss of a joint venture		**(218)**	(116)
(Loss) profit before tax		**(314,251)**	7,966
Income tax expense	5	**(3,249)**	(3,334)
(Loss) profit for the period	6	**(317,500)**	4,632
Other comprehensive (expense) income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(9,650)**	670
Total comprehensive (expense) income for the period		**(327,150)**	5,302
(Loss) profit for the period attributable to:			
Owners of the Company		**(321,147)**	1,264
Non-controlling interests		**3,647**	3,368
		(317,500)	4,632
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(329,970)**	1,447
Non-controlling interests		**2,820**	3,855
		(327,150)	5,302
(Loss) earnings per share	8		
– Basic		**(83.71) HK cents**	0.33 HK cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2016

	Notes	**30.6.2016** *HK$'000* **(unaudited)**	31.12.2015 *HK$'000* (audited)
Non-current Assets			
Investment properties		**140,850**	140,850
Property, plant and equipment		**967,942**	972,937
Prepaid lease payments		**67,405**	73,017
Deposits paid for acquisition of property, plant and equipment		**9,301**	14,179
Intangible assets		**15,352**	16,732
Goodwill		**8,127**	8,979
Interest in an associate		**23,539**	20,369
Interest in a joint venture		**4,854**	5,024
Loan receivable		**–**	1,260
Other receivables		**5,084**	5,479
Deferred tax assets		**206**	229
		1,242,660	1,259,055
Current Assets			
Inventories		**174,047**	191,805
Debtors, deposits and prepayments	9	**392,340**	405,753
Loan receivable		**1,261**	–
Other receivables		**1,925**	2,202
Prepaid lease payments		**1,517**	1,743
Derivative financial instruments		**581**	–
Tax recoverable		**2,520**	2,852
Short-term bank deposit		**22,754**	23,030
Bank balances and cash		**261,937**	194,870
		858,882	822,255
Assets classified as held for sale	10	**115,714**	–
		974,596	822,255
Current Liabilities			
Creditors, deposit received and accrued charges	11	**1,219,993**	919,124
Bank borrowings	12	**244,258**	68,693
Tax liabilities		**3,493**	2,247
		1,467,744	990,064
Net Current Liabilities		**(493,148)**	(167,809)
Total Assets less Current Liabilities		**749,512**	1,091,246

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital and Reserves		
Share capital	**38,365**	38,365
Reserves	**678,996**	1,023,545
Equity attributable to owners of the Company	**717,361**	1,061,910
Non-controlling interests	**20,050**	17,230
Total Equity	**737,411**	1,079,140
Non-current Liabilities		
Deferred tax liabilities	**12,101**	12,106
	749,512	1,091,246

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2016

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.

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$493,148,000 at 30th June, 2016. In the opinion of the Directors, the Group has a number of sources of finance available to fund its operations. Taking into account of the internally generated funds, the available banking facilities and obtaining further banking facilities by the Group's unpledged assets, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

Significant event and transaction in the current interim period

During the six months ended 30th June, 2016, net economic compensation expense of approximately HK$286,626,000 for past service of the employees of the Group was charged to profit or loss as part of administrative expenses. The compensation expense arose as a result of the relocation of the Group's factory and the disposal of the Group's interest in the Argent Urban Renewal Project (the "Disposal"), details of which are disclosed in note 10.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2015, except for assets classified as held for sale, financial assets at fair value through profit or loss and derivative financial instruments as detailed below.

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 HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The Directors anticipate that 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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other gains and losses line item.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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 reportable and operating segment for the period under review:

For the six months ended 30th June, 2016

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**406,218**	**160,741**	**65,831**	**8,668**	**641,458**
Result					
Segment (loss) profit	**(167,820)**	**(88,071)**	**(24,012)**	**881**	**(279,022)**
Unallocated income					**22,945**
Unallocated corporate expenses					**(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					**(218)**
Loss before tax					**(314,251)**

For the six months ended 30th June, 2015

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	451,398	183,770	76,720	14,596	726,484
Result					
Segment profit (loss)	21,330	2,885	(628)	800	24,387
Unallocated income					12,474
Unallocated corporate expenses					(35,651)
Interest income on bank deposits					7,507
Finance costs					(1,048)
Share of profit of an associate					413
Share of loss of a joint venture					(116)
Profit before tax					7,966

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, share of profit of an associate and share of loss of a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. FINANCE COSTS

	Six months ended	
	30.6.2016 ***HK$'000***	30.6.2015 *HK$'000*
Interests on bank borrowings	**1,398**	1,048

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**1,174**	1,087
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**23**	19
– Under(over)provision in respect of prior year	**2**	(6)
	25	13
United Kingdom Corporation Tax		
– Current year	**1,211**	1,749
France Corporation Tax		
– Current year	**843**	667
Deferred taxation		
– Current year	**(4)**	(182)
	3,249	3,334

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.

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 20% in accordance with the relevant law and regulations in the United Kingdom for both periods.

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, 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. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**991**	1,023
Allowance for doubtful debts, net (included in distribution and selling expenses)	**1,078**	1,165
Cost of inventories recognised as an expense (included allowance for inventories of HK$7,752,000 (2015: HK$3,386,000))	**526,972**	588,762
Depreciation of property, plant and equipment	**72,889**	58,366
Gain on changes in fair value of derivative financial instruments	**(581)**	–
Gain on disposal of property, plant and equipment	**–**	(389)
Increase in fair value of investment properties	**–**	(10,470)
Net foreign exchange gains (included in other gains and losses)	**(21,190)**	(6,866)
Release of prepaid lease payments	**887**	712
Gross rental income from investment properties (included in other income)	**(1,756)**	(1,620)
Less: direct expenses of investment properties that generated rental income during the period	**339**	428
	(1,417)	(1,192)

7. DIVIDENDS

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
Second special dividend paid of 3.8 HK cents in respect of 2015 (2015: 3.8 HK cents in respect of 2014) per share	**14,579**	14,579

The Board has resolved not to declare any interim dividend, but has resolved to declare a special dividend of 3.8 HK cents per share for the six months ended 30th June, 2016 on 30th August, 2016.

During the six months period ended 30th June, 2016, the Board did not recommend the payment of a final dividend (2015: nil in respect of 2014) and resolved to recommend a second special dividend of 3.8 HK cents (2015: 3.8 HK cents in respect of 2014) per share, amounting to HK$14,579,000 (2015: HK$14,579,000 in respect of 2014), for the year ended 31st December, 2015.

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2016	30.6.2015
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of basic (loss) earnings per share – (Loss) profit for the period attributable to owners of the Company	**(321,147)**	1,264
	Number of shares	
Number of shares for the purpose of basic (loss) earnings per share	**383,650,000**	383,650,000

No diluted (loss) 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$316,287,000 and nil respectively (31st December, 2015: HK$328,912,000 and HK$185,000 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:

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
0 – 90 days	**228,372**	248,627
91 – 180 days	**82,700**	75,133
More than 180 days	**5,215**	5,152
	316,287	328,912

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:

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
0 – 90 days	**–**	185

10. ASSETS CLASSIFIED AS HELD FOR SALE

Argent Optical Manufactory Limited, a wholly-owned subsidiary of the Company, entered into a relocation agreement with 深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) and 佳兆業集團(深圳)有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) on 15th August, 2014 in relation to the Disposal for a total consideration of RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000), details of which are disclosed in the Company's announcements dated 19th August, 2014, 8th October, 2014, 13th October, 2015 and 3rd May, 2016 and circular dated 19th September, 2014. The assets attributable to the Disposal that are expected to be sold within twelve months from 30th June, 2016, have been classified as held for sale and are separately presented in the condensed consolidated statement of financial position. The net proceed of the Disposal is expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised.

The major classes of assets of the Disposal as at 30th June, 2016 are as follows:

	HK$'000
Buildings and leasehold improvements	107,946
Prepaid lease payments	7,768
Total assets classified as held for sale	115,714

11. CREDITORS, DEPOSIT RECEIVED AND ACCRUED CHARGES

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
Trade creditors	**118,107**	110,920
Deposits received relating to the Disposal *(Note)*	**873,692**	680,976
Other creditors and accrued charges	**228,194**	127,228
	1,219,993	919,124

Note: The amount represents the first and part of second instalments of proceeds relating to the Disposal of RMB577,000,000 and RMB172,500,000 received in October 2014 and May 2016 respectively.

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

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
0 – 60 days	**96,637**	89,044
61 – 120 days	**20,056**	19,209
More than 120 days	**1,414**	2,667
	118,107	110,920

12. BANK BORROWINGS

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
Bank borrowings:		
– Secured	**199,310**	45,959
– Unsecured	**44,948**	22,734
	244,258	68,693
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	**100,007**	27,732
– more than one year, but not exceeding two years	**111,020**	5,124
– more than two years, but not exceeding five years	**16,363**	16,161
– more than five years	**16,868**	19,676
	244,258	68,693
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(244,258)**	(68,693)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. Bank borrowings of HK$32,776,000 (31st December, 2015: HK$34,646,000) and HK$60,000,000 (31st December, 2015: nil) are secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$142,193,000 (31st December, 2015: HK$142,219,000) 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$10,701,000 (31st December, 2015: HK$11,313,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$33,303,000 (31st December, 2015: HK$33,875,000) and carries interest at one-month HIBOR plus 1.8%. A bank borrowing of HK$95,833,000 (31st December, 2015: nil) is secured by the Group's leasehold land and buildings with carrying amount of HK$37,904,000 (including leasehold land and buildings with carrying amount of HK$33,303,000 as mentioned-above) and carries interest at one-month HIBOR plus 2.9%. Unsecured bank borrowings of HK$44,948,000 (31st December, 2015: HK$22,734,000) carry interests at HIBOR plus certain basis points.

DIVIDEND

The Board has resolved not to declare any interim dividend (2015: nil), but has resolved to declare a special dividend of 3.8 HK cents (2015: 3.8 HK cents) per share for the six months ended 30th June, 2016. The special dividend will be payable on or about 17th October, 2016 to shareholders whose names appear on the register of members of the Company on 4th October, 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3rd October, 2016 to 4th October, 2016, 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 30th September, 2016 in order to qualify for the special dividend mentioned above.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 12% to HK$641.5 million during the six months ended 30th June, 2016 (2015: HK$726.5 million). A substantial loss of HK$321.1 million was incurred during the period under review (2015: profit of HK$1.3 million). Loss per share was 83.71 HK cents (2015: earnings per share of 0.33 HK cent).

Despite 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 costs and other operating costs in Mainland China in the first half of 2016, the Group managed to minimize the impact on its gross margin ratio (being the ratio of gross profit to revenue) by improving its operational efficiency, moderate price adjustments of its products, as well as increasing the proportion of contribution made by the wholesale business of its distribution division in the United Kingdom and France, which has a higher margin. Gross margin ratio declined slightly from 19% in the first half of 2015 to 18% in the first half of 2016.

During the period under review, net economic compensation expense of approximately HK$286.6 million for past service of the employees of the Group was charged to the profit or loss as part of administrative expenses. The compensation expense arose as a result of the relocation of the Group's factory and the disposal of the Group's interest in the Argent Urban Renewal Project (the "Disposal") as announced by the Company on 19th August, 2014, 19th September, 2014, 8th October, 2014, 13th October, 2015 and 3rd May, 2016. Additional costs and expenses were also incurred during the six months ended 30th June, 2016 as the Group entered into the final execution phase of its factory relocation project with new buildings being constructed on its factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City, which resulted in higher depreciation charges on the buildings and leasehold improvement. According to the Hong Kong Financial Reporting Standards, the Group will only be able to recognise income when the Disposal has been completed, but will recognize costs and expenses relating to the Disposal as and when they are incurred. Since the Disposal has not yet been completed, the instalment payment of approximately RMB172.5 million (equivalent to approximately HK$203.4 million) received by the Group for the Disposal in the first half of 2016 has not yet been recognised as income. As a result of such accounting treatment, a substantial loss was recognized in the period under review.

Original design manufacturing ("ODM") division

Revenue generated by the ODM division contributed 82% to the consolidated revenue of the Group in the period under review (2015: 85%). Concerns over possible interest rate hikes in the United States (the "US") and sluggish economic performance in Europe continued to affect the procurement confidence in those regions, resulting in a double-digit percentage decline in sales in both markets. Sales to ODM customers decreased by 15% from HK$618.7 million in the first six months of 2015 to HK$527.2 million in the first six months of 2016. Geographically, sales to Europe, the US, Asia and other regions accounted for 62%, 29%, 8% and 1% respectively (2015: 61%, 29%, 9% and 1% respectively) of the revenue of the ODM division during 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 55%, 43% and 2% respectively of the revenue of this division during the first half of 2016 (2015: 55%, 44% and 1% respectively).

Distribution and retailing divisions

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom and France and independent distributors in other countries. Customers continued to look for value frames in the face of economic challenges. Revenue of the distribution division increased moderately by 6% to HK$113.3 million (2015: HK$106.5 million) and accounted for 18% (2015: 15%) of the consolidated revenue during the first six months of 2016. Sales to Europe, Asia, the US and other regions accounted for 67%, 19%, 7% and 7% respectively of the revenue of the distribution division in the period under view (2015: 68%, 17%, 4% and 11% respectively). Growth in sales in the European and Asian markets was mainly driven by the increased penetration of STEPPER frames in these markets whereas growth in sales in the US market was attributable to the launch of other brands.

Revenue of the retailing division decreased from HK$1.3 million for the first six months of 2015 to HK$1.0 million for the first six months of 2016 and continued to contribute less than 1% to the consolidated revenue of the Group.

Financial position and liquidity

Cash flows

Capital expenditure remained high during the period under review and amounted to HK$187.1 million (2015: HK$234.8 million). Out of the HK$286.6 million net economic compensation expense charged to profit or loss in the first half of 2016, HK$163.8 million was paid before 30th June, 2016. The above cash outflows were financed by the partial receipt of RMB172.5 million (equivalent to approximately HK$203.4 million) of the second instalment of the Disposal, and two term loans borrowed from banks amounting to HK$160.0 million, as well as 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 9% and 4% from HK$191.8 million and HK$329.1 million as at 31st December, 2015 to HK$174.0 million and HK$316.3 million as at 30th June, 2016 respectively. Inventory turnover period (being the ratio of inventory balances to cost of sales) and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased slightly from 56 days and 89 days in the first half of 2015 to 60 days and 90 days respectively in the period under review due to the gradual slowdown in business activities of the Group in the second quarter of 2016 for the preparation and execution of the factory relocation. Due to the substantial capital expenditure spent by the Group for the relocation of its factory, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 0.8 to 1.0 as at 31st December, 2015 to 0.7 to 1.0 as at 30th June, 2016.

Gearing position

Despite the substantial loss incurred by the Group in the first six months of 2016, 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 2% as at 30th June, 2016 (31st December, 2015: 1%). The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$12.1 million as at both 30th June, 2016 and 31st December, 2015.

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2016 and 31st December, 2015 with equity attributable to owners of the Company amounting to HK$717.4 million and HK$1,061.9 million as at 30th June, 2016 and 31st December, 2015 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, 2016 was HK$1.87 (31st December, 2015: HK$2.77).

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

Factory relocation

The Group has executed and completed its factory relocation project in July and August 2016. The factory site at Longcheng Street, Longguan District, Shenzhen City (the "Argent Land") was delivered to 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 the balance of the second instalment of the Disposal (net of tax) amounting to RMB111.9 million (equivalent to approximately HK$132.8 million) was received by the Group in August 2016. Balance of the net economic compensation expense of HK$122.8 million was also paid to the employees in the same month. The Group is working closely with Kaisa Property to facilitate the confirmation from the relevant Chinese government authorities confirming Kaisa Property as the named developer of the Argent Urban Renewal Project (being the condition for the receipt of the third instalment of RMB316.0 million, equivalent to approximately HK$375.1 million, of the Disposal) and to issue to Kaisa Property an original power of attorney authorizing Kaisa Property to complete all procedures relating to the transfer of the Argent Land and land use rights in accordance with the Shenzhen urban renewal policies and to apply for deregistration of the existing title records (being the condition for the receipt of the fourth instalment of RMB370.7 million, equivalent to approximately HK$440.0 million, of the Disposal).

Exports outlook

Concerns on possible interest rate hikes and the results of the presidential election in the US as well as the impact of Brexit will continue to affect the general market sentiment of its key ODM markets. The Group is working closely with its customers to provide value creation solutions to their supply chains. Despite the relatively poor business visibility, the Group maintains a stable order book of around three months' sales order on hand.

The increase in both absolute and relative terms of contribution by the distribution division demonstrates its growing importance in the future development of the Group. The Group will continue to explore other business opportunities to increase the contribution of this business, which has a higher margin, including expansion of both the Group's distribution network (through direct distribution and alliances with strategic distribution partner(s)) and brands portfolio (by acquisition and licensing of brands).

Margin pressure

Operating costs in Mainland China will continue to rise and put pressure on the Group's margin. Substantial capital investment has been made during the factory relocation project as the Group believes that it represents a good opportunity for the Group to upgrade and modernize its production processes in its newly established factories and thereby improve its operational efficiency.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2016, the Group employed approximately 7,300 (31st December, 2015: 8,300) full time staff in Mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical 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, 2016, 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, 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, 2016.

REVIEW OF INTERIM RESULTS

The unaudited interim results and the interim report of the Group for the six months ended 30th June, 2016 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM REPORT

The 2016 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 2016.

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, 30th August, 2016