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)

## FINAL RESULTS
## FOR THE YEAR ENDED 31ST DECEMBER, 2007

### FINAL RESULTS

The Board of Directors (the "Board") of Arts Optical International Holdings Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 2007 together with last year's comparative figures are as follows:

### CONSOLIDATED INCOME STATEMENT

*FOR THE YEAR ENDED 31ST DECEMBER, 2007*

| | *Notes* | **2007** ***HK$'000*** | 2006 *HK$'000* |
|---|---|---|---|
| Revenue | 2 | **1,294,215** | 1,098,960 |
| Cost of sales | | **(925,514)** | (783,330) |
| Gross profit | | **368,701** | 315,630 |
| Other income | 3 | **25,203** | 42,688 |
| Distribution and selling expenses | | **(48,803)** | (49,300) |
| Administrative expenses | | **(140,710)** | (112,597) |
| Other expenses | | **(2,161)** | (15,327) |
| Finance costs | 5 | **(399)** | (49) |
| Profit before taxation | | **201,831** | 181,045 |
| Taxation | 6 | **(16,539)** | (17,676) |
| Profit for the year | 7 | **185,292** | 163,369 |
| Attributable to: | | | |
| Equity holders of the parent | | **184,057** | 166,483 |
| Minority interests | | **1,235** | (3,114) |
| | | **185,292** | 163,369 |
| Dividends | 8 | | |
| – Declared | | **57,548** | 53,711 |
| – Proposed | | **30,692** | 26,856 |
| | | **88,240** | 80,567 |
| Earnings per share | 9 | | |
| – Basic | | **48.0 HK cents** | 43.4 HK cents |

## CONSOLIDATED BALANCE SHEET

*AT 31ST DECEMBER, 2007*

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Non-current Assets** | | |
| Investment property | **7,400** | 4,800 |
| Property, plant and equipment | **501,674** | 350,373 |
| Prepaid lease payments | **33,565** | 26,145 |
| Deposits paid for acquisition of property, plant and equipment | **4,783** | 9,064 |
| Intangible assets | **4,680** | 4,680 |
| Loan receivable | **14,137** | 15,229 |
| Goodwill | **–** | – |
| Available-for-sale investments | **5,858** | 5,858 |
| Deferred tax assets | **53** | 53 |
| | **572,150** | 416,202 |
| **Current Assets** | | |
| Inventories | **210,980** | 184,621 |
| Debtors, deposits and prepayments | **353,241** | 339,720 |
| Loan receivable | **2,262** | 2,247 |
| Prepaid lease payments | **834** | 652 |
| Tax recoverable | **108** | 265 |
| Short-term bank deposit | **7,506** | – |
| Bank balances and cash | **100,934** | 69,134 |
| | **675,865** | 596,639 |
| Assets classified as held for sale | **3,227** | – |
| | **679,092** | 596,639 |
| **Current Liabilities** | | |
| Creditors and accrued charges | **286,348** | 234,442 |
| Bank borrowings | **36,835** | – |
| Tax liabilities | **1,967** | 10,381 |
| | **325,150** | 244,823 |
| **Net Current Assets** | **353,942** | 351,816 |
| **Total Assets less Current Liabilities** | **926,092** | 768,018 |

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Capital and Reserves** | | |
| Share capital | **38,365** | 38,365 |
| Reserves | **869,551** | 715,843 |
| Equity attributable to equity holders of the parent | **907,916** | 754,208 |
| Minority interests | **1,552** | 142 |
| **Total Equity** | **909,468** | 754,350 |
| **Non-current Liabilities** | | |
| Deferred tax liabilities | **15,566** | 13,054 |
| Loan from a minority shareholder of a subsidiary | **1,058** | 614 |
| | **16,624** | 13,668 |
| | **926,092** | 768,018 |

*Notes:*

**1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

In the current year, the Group has applied, for the first time, the following new standard, amendment to Hong Kong Accounting Standards ("HKAS") and interpretations ("HK(IFRIC)-Int") ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January, 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) – Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions[3] |
| HK(IFRIC) – Int 12 | Service Concession Arrangements[4] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[5] |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4] |

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 2. SEGMENT INFORMATION

**Revenue**

Revenue represents the net amounts received and receivable for goods sold to outside customers during the year.

**Business segments**

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers this as one single business segment.

**Geographical segments**

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC").

Segment information of the Group by location of customers is presented as below:

***For the year ended 31st December, 2007***

| | **Europe** | **United States** | **Asia** | **Other regions** | **Consolidated** |
|---|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| *Revenue* | | | | | |
| External sales | **821,741** | **369,387** | **67,744** | **35,343** | **1,294,215** |
| *Result* | | | | | |
| Segment result | **173,394** | **78,525** | **13,984** | **5,339** | **271,242** |
| Unallocated income | | | | | **5,445** |
| Unallocated corporate expenses | | | | | **(75,894)** |
| Interest income on bank deposits | | | | | **1,437** |
| Finance costs | | | | | **(399)** |
| Profit before taxation | | | | | **201,831** |
| Taxation | | | | | **(16,539)** |
| Profit for the year | | | | | **185,292** |

*For the year ended 31st December, 2006*

| | Europe | United States | Asia | Other regions | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Revenue* | | | | | |
| External sales | 708,957 | 291,866 | 69,925 | 28,212 | 1,098,960 |
| *Result* | | | | | |
| Segment result | 149,340 | 63,900 | 18,581 | 4,158 | 235,979 |
| Unallocated income | | | | | 20,956 |
| Unallocated corporate expenses | | | | | (76,853) |
| Interest income on bank deposits | | | | | 1,012 |
| Finance costs | | | | | (49) |
| Profit before taxation | | | | | 181,045 |
| Taxation | | | | | (17,676) |
| Profit for the year | | | | | 163,369 |

## 3. OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Included in other income are: | | |
| Sales of scrap materials | **6,888** | 12,861 |
| Compensation from customers | **9,361** | 5,444 |
| Increase in fair value of investment property | **2,600** | 1,200 |
| Interest income on bank deposits | **1,437** | 1,012 |
| Property rental income less negligible outgoings | **372** | 290 |
| Dividend income from available-for-sale investments | **2,375** | 940 |
| Net gain on disposal of prepaid lease payments and property, plant and equipment | **–** | 18,045 |
| Royalty income on intangible assets | **467** | 1,873 |

## 4. INCOME STATEMENT CLASSIFICATION

Included in cost of sales is an amount of HK$8,075,000 (2006: HK$15,645,000) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

## 5. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings wholly repayable within five years | **302** | 15 |
| Imputed interest on loan from a minority shareholder of a subsidiary | **97** | 34 |
| | **399** | 49 |

## 6. TAXATION

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current taxation | | |
| Hong Kong Profits Tax | | |
| – Current year | **16,833** | 16,822 |
| – (Over)underprovision in respect of prior years | **(2,806)** | 1,109 |
| | **14,027** | 17,931 |
| Deferred taxation | | |
| – Current year | **3,239** | 1,356 |
| – Overprovision in respect of prior year | **(727)** | (1,611) |
| | **2,512** | (255) |
| | **16,539** | 17,676 |

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

## 7. PROFIT FOR THE YEAR

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **1,510** | 1,408 |
| Cost of inventories recognised as an expense | **925,514** | 783,330 |
| Depreciation of property, plant and equipment | **68,968** | 56,531 |
| Impairment loss on goodwill | **–** | 1,274 |
| Impairment loss recognised in respect of available-for-sale investments | **–** | 7,500 |
| Loss on disposal of property, plant and equipment | **383** | – |
| Net foreign exchange loss | **392** | 5,476 |
| Operating lease rentals in respect of rented premises | **6,356** | 6,485 |
| Release of prepaid lease payments | **710** | 900 |
| Staff costs: | | |
| Directors' emoluments | **3,110** | 2,907 |
| Other staff | | |
| – Salaries and other allowances | **271,676** | 206,023 |
| – Retirement benefit scheme contributions | **17,100** | 1,118 |
| Total staff costs | **291,886** | 210,048 |
| (Write back) allowance for doubtful debts | **(127)** | 10,954 |

## 8. DIVIDENDS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution during the year: | | |
| Final dividend paid in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share | **26,856** | 26,856 |
| Interim dividend paid in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share | **30,692** | 26,855 |
| | **57,548** | 53,711 |
| Final dividend proposed in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share | **30,692** | 26,856 |
| | **88,240** | 80,567 |

The final dividend in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 9. 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:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purpose of basic earnings per share | **184,057** | 166,483 |
| | *Number of shares* | |
| Weighted average 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 dilutive potential ordinary shares in issue in either 2007 and 2006.

# DIVIDENDS

The directors of the Company (the "Directors") have resolved to recommend a final dividend of 8 HK cents per share for the year ended 31st December, 2007. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2008, the final dividend will be payable on 19th June, 2008 to shareholders whose names appear on the register of members of the Company on 23rd May, 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st May, 2008 to 23rd May, 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 20th May, 2008 in order to qualify for the proposed final dividend mentioned above.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 23rd May, 2008. The notice of annual general meeting will be published on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's website at www.hkexnews.hk and will be despatched to the shareholders on or about 28th April, 2008.

## BUSINESS REVIEW

### Profitability analysis

2007 was another year of growth for the Group. Its consolidated revenue and profit attributable to the equity holders of the Company increased by 18% and 11% to HK$1,294.2 million and HK$184.1 million respectively (2006: HK$1,099.0 million and HK$166.5 million respectively) in 2007. Basic earnings per share also increased by 11% to 48.0 HK cents (2006: 43.4 HK cents) in 2007.

Although the Group continued to face acute cost challenges imposed by higher raw material costs, labour wages, record energy prices and appreciation of Renminbi, it strived to maintain its profit margin by cost synergies derived from economies of scale, improvement in operational efficiency and modest selling price adjustments. Gross profit margin (ratio of gross profit to revenue) declined slightly by 0.2% from 28.7% in 2006 to 28.5% in 2007. To maintain the profitability growth, the management succeeded in containing the increase in general expenses and as a result, total expenses to revenue ratio decreased by 1.3% from 16.1% in 2006 to 14.8% in 2007. Net profit margin (ratio of profit attributable to the equity holders of the Company to revenue) decreased by 0.9% from 15.1% in 2006 to 14.2% in 2007.

### Original design manufacturing (ODM) division

Despite the slowdown in global economy arising from the sub-prime mortgage crisis in the United States (the "US") during the year, the Group managed to report a satisfactory growth of 18% of revenue generated by its core ODM division from HK$996.6 million in 2006 to HK$1,179.6 million in 2007 by leveraging on the flexibility and efficiency of its manufacturing base and its ability of quickly responding to market changes. Sales to Europe and the US registered growth rates of 15% and 27% and increased to HK$762.9 million and HK$361.8 million respectively (2006: HK$661.8 million and HK$285.7 million respectively) in 2007. From a geographical perspective, sales to Europe, US, Asia and other regions all reported growth in revenue and accounted for

65%, 30%, 3% and 2% respectively of the sales of this division in 2007 (2006: 66%, 29%, 3% and 2% respectively). Sales of sunglasses continued to exhibit a faster growth rate as compared with prescription frames and grew by 26% in 2007 to HK$559.5 million (2006: HK$444.0 million) as the demand by fashion labels for trendy sunglasses especially those made of acetate plastic materials remained strong. Sales of prescription frames also increased by 11% to HK$595.4 million in 2007 (2006: HK$534.9 million). Sales of metal frames, plastic frames and spare parts accounted for 53%, 45% and 2% respectively of the sales of the ODM division in 2007 (2006: 49%, 49% and 2% respectively).

**Distribution and retailing divisions**

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 11% to HK$95.7 million in 2007 (2006: HK$86.4 million). Most of the growth momentum was contributed by STEPPER eyewear (the German brand owned by the Group) as the contribution from FIORUCCI eyewear (a licensed Italian fashion brand), PANTONE UNIVERSE eyewear (a licensed American brand) and OOPZ eyewear (a house brand) was relatively limited. Sales to Europe, Asia, North America and other regions accounted for 61%, 15%, 11% and 13% respectively of the Group's revenue of distribution division in 2007 (2006: 50%, 28%, 11% and 11% respectively). Double-digit sales growth was recorded in all major markets except for Asia.

The Group had sold 4 shops and closed down 1 shop in Beijing in 2007. As at 31st December, 2007, the Group operated a total of 8 shops (31st December, 2006: 13) including 3 shops in Beijing and 5 shops in Shenzhen (31st December, 2006: 8 and 5 respectively). Despite the down-sizing of the retail sales network, revenue of the retailing division increased by 18% to HK$18.9 million in 2007 (2006: HK$16.0 million). This growth was attributable to the remarkable sales performance of the flagship shop in Shenzhen after its renovation works in late 2006 and improvement in same-store sales of the remaining shops.

**Financial position and liquidity**

The Group generated HK$254.7 million net cash inflow from its operating activities in 2007 (2006: HK$171.6 million). Capital expenditure which was principally financed by the Group's internal resources had increased substantially to HK$190.6 million in 2007 (2006: HK$146.7 million). Dividend payments amounted to HK$57.5 million were also made during the year (2006: HK$53.7 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$69.1 million as at 31st December, 2006 to HK$71.6 million as at 31st December, 2007.

The current ratio of the Group as at 31st December, 2007 was 2.1 to 1 (2006: 2.4 to 1) with HK$679.1 million of current assets (2006: HK$596.6 million) and HK$325.2 million of current liabilities (2006: HK$244.8 million). The efforts of cutting down the delivery lead time by internal streamlining of the operations and installations of more advanced semi-automatic equipment resulted in a reduction of the inventory turnover period (ratio of inventory balance to cost of sales) from 86 days in 2006 to 83 days in 2007. Debtors turnover period (ratio of the trade debtor balance to sales) also decreased from 111 days in 2006 to 98 days in 2007, further shortening the working capital cycle of the Group.

The Group had 383,650,000 shares in issue as at both 31st December, 2007 and 31st December, 2006 with an equity attributable to equity holders of the Company amounting to HK$907.9 million and HK$754.2 million as at 31st December, 2007 and 31st December, 2006 respectively. Net asset value per share (equity attributable to equity holders of the Company divided by the total number of shares in issue) as at 31st December, 2007 was HK$2.37 (31st December, 2006: HK$1.97). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to equity holders of the Company) as at 31st December, 2007 were HK$16.6 million (31st December, 2006: HK$13.7 million) and 1.8% (31st December, 2006: 1.8%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the period under review, except to the extent of the gradual continuous appreciation of Renminbi against US dollars and Hong Kong dollars.

**Contingent liabilities**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor | **9,750** | 9,687 |

The directors considered that the fair values of this financial guarantee contract at its initial recognition and 31st December, 2006 and 2007 are insignificant on the basis of short maturity periods and low applicable default rates. The Group has not recognised any deferred income in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

## PROSPECTS

### ODM division

As an internationally recognized manufacturer of quality and innovative eyewear with strong design and development capabilities, the Group has become a strategic vendor of most of the industry leaders and an integral part of their global supply chain management. Despite the soft performance of the global economy in recent months, the Group still maintains a stable order book of three months sales order. There are also signs that some of the customers who may have run down their inventory holding last year are now planning to restock.

On the cost side, our strategic priority is to minimize the negative effects arising from

(a) rising cost pressure;

(b) implementation of the labour contract law in the PRC in January 2008;

(c) shortage of supply of skilful labour and power in the PRC; and

(d) further tightening of regulations on processing trade in the PRC.

Because of the slowdown in global economy in 2007, the Group has delayed the commercial production by the new factory in Heyuan to the second half of 2008. This new production facility is designated for mass production processes whereas the existing factory in Shenzhen will focus on the manufacture of higher valued products and act as the research and development centre of the Group. Capital investment will be primarily funded by internal resources and the management continues to carefully execute the expansion plan with close monitoring of its impact on the cashflow management.

### Distribution and retailing divisions

The Group's multi-faceted expansion strategy places equal emphasis on developing the core ODM business and the high potential distribution business. The Group has merged its two distribution companies under a single umbrella in March 2008 for improving its cost effectiveness and maximizing cross selling opportunities of its portfolio of brands through an enlarged sales network comprising approximately 60 distributors in over 40 countries. The Group intends to further boost growth by continuous investment in its distribution business which will evolve as a long term growth driver of the Group.

The Group has closed its retailing business in Beijing after the disposal of the remaining 3 shops in Beijing in February 2008. The management intends to maintain the current retailing operations in Shenzhen and expects its contribution to the sales and profitability of the whole Group will remain relatively limited in view of its small scale of operations.

**Summary**

In view of the global economic uncertainty and the rising costs of production in the PRC, the Group believes that there will be more consolidation of the markets on both demand and supply sides. Because of its strong competitiveness and financial position as well as strategic business relations with the market leaders, the management is confident that the Group will continue to gain market share and to deliver satisfactory results in the forthcoming years.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2007, the Group employed approximately 12,000 (2006: 11,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating result of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

## CORPORATE GOVERNANCE

The Company has complied with all the code provisions in effect as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31st December, 2007 except for the deviations from code provision A.2.1 of the Code. Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thererto for the year ended 31st December, 2007 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

The Group's consolidated financial statements for the year ended 31st December, 2007 have been reviewed by the Audit Committee and audited by Messrs. Deloitte Touche Tohmatsu.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2007.

## PUBLICATION ON ANNUAL REPORT

The 2007 annual report will be despatched to the shareholders and available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's website at www.hkexnews.hk on or about 28th April, 2008.

## DIRECTORS

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

By order of the Board
**Ng Hoi Ying, Michael**
*Chairman*

Hong Kong, 15th April, 2008

* *For identification purpose only*