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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)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2009

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, 2009 together with last year's comparative figures.

FINANCIAL HIGHLIGHTS		
	2009	2008
Revenue	HK\$1,169,768,000	HK\$1,396,260,000
Profit attributable to the owners of the Company	HK\$122,336,000	HK\$131,354,000
Earnings per share	31.9 HK cents	34.2 HK cents
Final dividend per share	7.0 HK cents	6.5 HK cents

^{*} For identification purpose only

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	Notes	2009 HK\$'000	2008 <i>HK</i> \$'000 (restated)
Revenue Cost of sales	2	1,169,768 (879,381)	1,396,260 (1,085,157)
Gross profit Other income	3	290,387 23,574	311,103 25,729
Other gains and losses Distribution and selling expenses Administrative expenses	4	1,107 (23,770) (157,069)	7,485 (36,704) (159,838)
Other expenses Finance costs	5	(930) (831)	(1,067) (1,592)
Profit before tax Income tax expense	6	132,468 (9,793)	145,116 (13,441)
Profit for the year	7	122,675	131,675
Other comprehensive income: Exchange differences arising on translation of foreign operations		1,939	16,464
Total comprehensive income for the year		124,614	148,139
Profit for the year attributable to: Owners of the Company Non-controlling interests		122,336 339 122,675	131,354 321 131,675
Total comprehensive income attributable to: Owners of the Company Non-controlling interests		124,275 339	147,714 425
		124,614	148,139
Earnings per share - Basic	9	31.9 HK cents	34.2 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	Notes	31.12.2009 HK\$'000	31.12.2008 HK\$'000	1.1.2008 HK\$'000
Non-current Assets				
Investment property		_	7,300	7,400
Property, plant and equipment		523,569	568,938	501,674
Prepaid lease payments		34,027	34,869	33,565
Deposits paid for acquisition of property,				
plant and equipment		1,298	6,338	4,783
Intangible assets		4,680	4,680	4,680
Loan receivable		10,114	12,361	14,137
Available-for-sale investments		5,858	5,858	5,858
Deferred tax assets		181		53
		579,727	640,344	572,150
Current Assets				
Inventories		148,335	188,317	210,980
Debtors, deposits and prepayments	10	316,127	394,457	353,241
Loan receivable		2,248	2,248	2,262
Prepaid lease payments		886	886	834
Tax recoverable		54	188	108
Short-term bank deposits		118,906	_	7,506
Bank balances and cash		222,850	141,239	100,934
		809,406	727,335	675,865
Assets classified as held for sale			<u>-</u>	3,227
		809,406	727,335	679,092
Current Liabilities				
Creditors and accrued charges	11	260,579	264,300	286,348
Bank borrowings	11	10,000	48,824	36,835
Tax liabilities		4,841	725	1,967
Tax maomites				1,707
		275,420	313,849	325,150
Net Current Assets		533,986	413,486	353,942
Total Assets less Current Liabilities		1,113,713	1,053,830	926,092

	31.12.2009 HK\$'000	31.12.2008 <i>HK</i> \$'000	1.1.2008 HK\$'000
Capital and Reserves			
Share capital	38,365	38,365	38,365
Reserves	1,033,094	958,694	869,551
Equity attributable to owners of the Company	1,071,459	997,059	907,916
Non-controlling interests	3,711	3,447	1,552
Total Equity	1,075,170	1,000,506	909,468
Non-current Liabilities			
Deferred tax liabilities	12,710	17,491	15,566
Bank borrowings	25,833	35,833	_
Loan from a minority shareholder of a			
subsidiary			1,058
	38,543	53,324	16,624
	1,113,713	1,053,830	926,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In the current year, the Group have applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Presentation of Financial Statements
Borrowing Costs
Puttable Financial Instruments and Obligations
Arising on Liquidation
Cost of an Investment in a Subsidiary, Jointly
Controlled Entity or Associate
Vesting Conditions and Cancellations
mproving Disclosures about Financial Instruments
Operating Segments
Embedded Derivatives
Customer Loyalty Programmes
Agreements for the Construction of Real Estate
Hedges of a Net Investment in a Foreign Operation
Transfers of Assets from Customers
mprovements to HKFRSs issued in 2008, except for
the amendment to HKFRS 5 that is effective for
annual periods beginning on or after 1st July, 2009
mprovements to HKFRSs issued in 2009 in relation
to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in a presentation of a third consolidated statement of financial position as at 1st January, 2008 as the Group has reclassified items in its financial statements during the current financial year (see below).

HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 2).

The Group has early adopted amendments to HKFRS 8 as part of Improvements to HKFRSs issued in 2009. The amendment clarifies that an entity shall report a measure of total assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to
	HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7
	Disclosures for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity
	Instruments ⁵

- ¹ Effective for annual periods beginning on or after 1st July, 2009
- Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate
- ³ Effective for annual periods beginning on or after 1st January, 2010
- ⁴ Effective for annual periods beginning on or after 1st February, 2010
- ⁵ Effective for annual periods beginning on or after 1st July, 2010
- ⁶ Effective for annual periods beginning on or after 1st January, 2011
- ⁷ Effective for annual periods beginning on or after 1st January, 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of "Improvements to HKFRSs" issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1st January, 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The information reported to the Group's chief operating decision maker (i.e. Executive Directors) for the purpose 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 segment:

For the year ended 31st December, 2009

	Europe HK\$'000	United States HK\$'000	Asia <i>HK\$</i> '000	Other regions <i>HK\$</i> '000	Consolidated HK\$'000
Revenue					
External sales	739,004	327,765	63,584	39,415	1,169,768
Result					
Segment profit	106,654	44,340	11,941	3,893	166,828
Unallocated income					854
Unallocated corporate expenses					(35,614)
Interest income on bank deposits					1,231
Finance costs					(831)
Profit before tax					132,468
For the year ended 31st Decemb	er, 2008 (resta	nted)			
		United		Other	
	Europe	States	Asia	regions	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue					
External sales	903,186	397,026	64,064	31,984	1,396,260
Result					
Segment profit	107,381	44,731	11,347	2,594	166,053
Unallocated income					14,879
Unallocated corporate expenses					(34,700)
Interest income on bank deposits					476
Finance costs					(1,592)
Profit before tax					145,116

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, investment income, property rental income, royalty income, gain on disposal of assets classified as held for sale, gain on disposal of interests in a subsidiary, gain on disposal of partial interests in a subsidiary and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

3. OTHER INCOME

Included in other income are:	
Sales of scrap materials 5,387	7,568
Compensation from customers 14,353	13,248
Interest income on bank deposits 1,231	476
Property rental income less negligible outgoings –	445
Dividend income from available-for-sale investments 273	1,434
Royalty income on intangible assets 581	468
4. OTHER GAINS AND LOSSES	
2009	2008
HK\$'000	HK\$'000
Gain on disposal of assets classified as held for sale	6,226
Gain on disposal of interests in a subsidiary	1,864
Gain on disposal of partial interests in a subsidiary –	4,442
Net loss on disposal of property, plant and equipment (128)	(350)
Net foreign exchange gains (losses) 1,256	(4,597)
Loss on disposal of investment property (21)	_
Decrease in fair value of investment property	(100)
1,107	7,485
5. FINANCE COSTS	
2009	2008
HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within	
five years 831	1,504
Imputed interest on loan from a minority shareholder of	
a subsidiary –	88
831	1,592

6. INCOME TAX EXPENSE

	2009 HK\$'000	2008 HK\$'000
The charge comprises:	$H\mathbf{K}\phi$ UUU	ΗΚΦ 000
Hong Kong Profits Tax		
– Current year	16,264	11,481
 Overprovision in respect of prior year 		(1,510)
	16,264	9,971
People's Republic of China ("PRC") Enterprise Income Tax		
- Current year	11	1,492
- Overprovision in respect of prior year	(1,520)	
	(1,509)	1,492
Deferred taxation		
- Current year	(4,962)	1,195
 Underprovision in respect of prior year 	-	1,669
- Attributable to change in tax rate		(886)
	(4,962)	1,978
	9,793	13,441

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 15% to 18% and 20% for the years ended 31st December, 2008 and 31st December, 2009 respectively and will increase progressively to 25% in the next three years in the Shenzhen Special Economic Zone or reduced from 33% to 25% outside the Shenzhen Special Economic Zone, from 1st January, 2008 onwards.

In relation to 50:50 appointment basis, 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

		2009 HK\$'000	2008 HK\$'000
	Profit for the year has been arrived at after charging:		
	Auditor's remuneration	1,480	1,480
	Cost of inventories recognised as an expense	869,477	1,067,859
	Depreciation of property, plant and equipment	95,744	81,882
	Operating lease rentals in respect of rented premises	4,656	4,299
	Release of prepaid lease payments	842	835
	Staff costs:		
	Directors' emoluments	2,339	2,387
	Other staff		
	 Salaries and other allowances 	325,695	365,394
	- Contributions to retirement benefit schemes	3,592	3,662
	Total staff costs	331,626	371,443
	Allowance for inventories	9,904	17,298
	Allowance for doubtful debts, net	1,246	8,944
8.	DIVIDENDS		
		2009	2008
		HK\$'000	HK\$'000
	Dividend recognised as distribution during the year:		
	Final dividend paid in respect of 2008 of 6.5 HK cents		
	(2008: 8.0 HK cents in respect of 2007) per share Interim dividend paid in respect of 2009 of 6.5 HK cents	24,937	30,692
	(2008: 7.0 HK cents in respect of 2008) per share	24,938	26,856
		49,875	57,548

The final dividend in respect of 2009 of 7.0 HK cents (2008: 6.5 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:

and the second s	2009 HK\$'000	2008 HK\$'000
Earnings for the purpose of basic earnings per share	122,336	131,354
	Number o	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 in both 2009 and 2008.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

	31.12.2009 HK\$'000	31.12.2008 <i>HK</i> \$'000	1.1.2008 HK\$'000
Trade debtors	337,386	416,155	365,615
Less: Allowance for doubtful debts	(24,732)	(27,430)	(18,457)
	312,654	388,725	347,158
Receivable from disposal of partial interests		990	
in a subsidiary Deposits and prepayments	3,473	4,742	6,083
Total debtors, deposits and prepayments	316,127	394,457	353,241

The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	31.12.2009 HK\$'000	31.12.2008 HK\$'000	1.1.2008 HK\$'000
0 – 90 days	254,164	318,458	287,800
91 – 180 days	54,697	70,267	56,654
More than 180 days	3,793		2,704
	312,654	388,725	347,158

The Group has a policy of allowing an average credit period of 30 days to 120 days to its trade debtors.

11. CREDITORS AND ACCRUED CHARGES

	31.12.2009	31.12.2008	1.1.2008
	HK\$'000	<i>HK</i> \$'000	HK\$'000
Trade creditors Other creditors and accrued charges	136,485	147,455	179,403
	124,094	116,845	106,945
	260,579	264,300	286,348

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

	31.12.2009 HK\$'000	31.12.2008 <i>HK</i> \$'000	1.1.2008 HK\$'000
0 - 60 days	96,641	82,119	104,106
61 – 120 days	36,917	59,817	62,817
More than 120 days	2,927	5,519	12,480
	136,485	147,455	179,403

The average credit period on purchase of goods is 60 days to 120 days.

12. COMPARATIVE FIGURES

In order to conform with current year's presentation:

- (a) sales rebate of HK\$13,942,000 included in distribution and selling expenses has been reclassified to revenue;
- (b) gain on disposal of assets classified as held for sale of HK\$6,226,000, gain on disposal of interests in a subsidiary of HK\$1,864,000 and gain on disposal of partial interests in a subsidiary of HK\$4,442,000 included in other income have been reclassified to other gains and losses; and
- (c) net loss on disposal of property, plant and equipment of HK\$350,000, net foreign exchange losses of HK\$4,597,000 and decrease in fair value of investment property of HK\$100,000 included in other expenses have been reclassified to other gains and losses.

DIVIDENDS

The Board has resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2009. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 28th May, 2010, the final dividend will be payable on 17th June, 2010 to shareholders whose names appear on the register of members of the Company on 28th May, 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25th May, 2010 to 28th May, 2010, 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 24th May, 2010 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, 28th May, 2010. 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 HKExnews website at www.hkexnews.hk and will be despatched to the shareholders on or about 21st April, 2010.

BUSINESS REVIEW

Profitability analysis

The market environment remained extremely challenging in 2009 after the drastic contraction of market demand for eyewear products in late 2008. The Group's consolidated revenue for the year decreased by 16% to HK\$1,169.8 million (2008: HK\$1,396.3 million). However, the volatile market conditions also rendered the management an opportunity to review and improve its cost structure. The decline in raw materials prices and the improvement in operational efficiency lifted the gross profit margin ratio of the Group by 2.5% from 22.3% in 2008 to 24.8% in 2009. Although total expenses were cut by HK\$16.6 million (8%) as a result of strict cost control initiatives, total expenses-to-revenue ratio still increased by 1.3% from 14.3% to 15.6% because of the lower revenue level achieved in 2009. As some one-off gains reported last year were no longer recorded this year, profit attributable to owners of the Company declined by 7% to HK\$122.3 million (2008: HK\$131.4 million) in 2009. Basic earnings per share was correspondingly down by 7% to 31.9 HK cents (2008: 34.2 HK cents) in the year under review. Despite the decline in the net profit figure, net profit ratio was in fact up by 1.1% from 9.4% in 2008 to 10.5% in 2009.

Original design manufacturing (ODM) division

The eyewear retailing markets of the main exports countries of the Group began their contraction in the final quarter of 2008, resulting in an unprecedented de-stocking exercise by retailers as well as importers. This inventory reduction process continued in the first quarter of 2009 and there were signs of stabilization followed by gradual recovery since the second quarter of the year. The Group recorded HK\$1,064.2 million in consolidated revenue on sales to ODM customers in 2009 (2008: HK\$1,284.0 million), representing a decline of 17% from 2008. Sales to the Group's two largest markets, Europe and the United States ("US"), fell by 20% and 17% respectively. Sales to emerging markets which were relatively less affected by the global recession were encouraging, with sales to Asia and other regions growing by 21% and 41% respectively. Geographically, sales to Europe, US, Asia and other regions accounted for 64%, 31%, 3% and 2% respectively of the sales of this division in 2009 (2008: 66%, 31%, 2% and 1% respectively).

The Group also adjusted its product mix amid the economic downturn. Sales of prescription frames remained relatively flat whereas sales of sunglasses, which are discretionary spending items, were down by 37% in 2009. Sales of prescription frames, sunglasses and spare parts accounted for 63%, 35% and 2% respectively of the turnover of this division in 2009 (2008: 53%, 46% and 1% respectively). The decline in proportion of sales of sunglasses also affected the sales mix of the products sold. Sales of metal frames, plastic frames and spare parts accounted for 51%, 47% and 2% respectively of total sales in 2009 (2008: 47%, 52% and 1% respectively) as a relatively high proportion of plastic frames were sunglasses.

Distribution and retailing divisions

The Group-owned German brand "STEPPER" continued its solid performance especially in European markets and this offset sales decline recorded in other brands and geographical markets. Revenue generated by the distribution division declined marginally by 3% from HK\$103.9 million in 2008 to HK\$100.5 million in 2009. Turnover was up by 3% in Europe, but it was down by 9%, 24% and 6% in Asia, North America and other regions respectively. Sales to Europe, Asia, North America and other regions accounted for 56%, 26%, 5% and 13% respectively of the turnover of the distribution division in 2009 (2008: 52%, 28%, 7% and 13% respectively).

After the disposal of all 3 shops in Beijing in 2008, the Group did not add to or close any of its retail shops throughout 2009. Because of the reduction of the average number of operating shops, turnover of the retailing division decreased by 39% to HK\$5.1 million in 2009 (2008: HK\$8.4 million). The Group operated a total of 3 shops in Shenzhen as at 31st December, 2009 and 31st December, 2008.

Financial position and liquidity

Working capital management

The management continued to make strenuous efforts to improve the efficiency of the Group's working capital management. Inventory turnover period (being the ratio of inventory balance to cost of sales) decreased from 63 days in 2008 to 62 days in 2009. Debtors turnover period (ratio of trade debtors to sales) also decreased from 102 days to 98 days. The current ratio of the Group as at 31st December, 2009 was 2.9 to 1 (31st December, 2008: 2.3 to 1) with HK\$809.4 million of current assets (31st December, 2008: HK\$727.3 million) and HK\$275.4 million of current liabilities (31st December, 2008: HK\$313.8 million).

Cash flows

The Group generated a substantially higher level of net cash inflow from operating activities in 2009, amounting to HK\$332.7 million (2008: HK\$160.4 million), principally as a result of the cutting down of working capital requirements during the year. Capital expenditure was also reduced from HK\$130.8 million in 2008 to HK\$43.3 million in 2009 amid the uncertain export environment. As a result, the net cash position of the Group (bank and cash balance less bank borrowings) increased from HK\$56.6 million as at 31st December, 2008 to HK\$305.9 million as at 31st December, 2009.

Gearing position

The Group continued to keep a low gearing position throughout 2009. As at 31st December, 2009, total non-current liabilities and the debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) were HK\$38.5 million (31st December, 2008: HK\$53.3 million) and 3.6% (31st December, 2008: 5.3%) respectively.

Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2009 and 31st December, 2008 with equity attributable to owners of the Company amounting to HK\$1,071.5 million and HK\$997.1 million as at 31st December, 2009 and 31st December, 2008 respectively. Net asset value per share (equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2009 was HK\$2.79 (31st December, 2008: HK\$2.60).

Foreign currency exposure

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 the exchange rates movements between these currencies were relatively stable during the year under review.

Contingent liabilities

	2009 HK\$'000	2008 HK\$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to		
a trade debtor	9,688	9,688

The directors of the Company consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2008 and 2009 are insignificant and of low applicable default risk. 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

There have been signs of recovery of demand for eyewear products from our ODM customers since the second quarter of 2009, albeit at different paces in different markets. Although business visibility remains low, market sentiment has significantly improved in recent months. The Group currently maintains a stable order book of around three months of sales orders on hand. On the cost side, the challenges facing us are the shortage of skilful labour in China which may push up the labour costs, rising raw material prices, accelerating inflation in China and the potential appreciation of Renminbi. We will tackle these challenges by maintaining flexibility in the scale of operations and further streamlining of our operations as well as possibly implementing modest price adjustments if the cost pressure intensifies.

The sales performance of the distribution division in 2009 demonstrated the resilience of the distribution business of the Group. Consumers continue to look for value frames in the face of severe economic challenges. The second global distributors conference held in Milan last month gave us the opportunity to introduce our brands to an expanded network of distributors and laid the foundation for business growth in 2010.

The contribution of the retailing division, which comprises three shops in Shenzhen, will continue to remain relatively limited in 2010.

Our strategy of liquidity and financial management has remained clear throughout this financial crisis. We will continue our efforts in further improving working capital management and cash flows.

Looking ahead, it is our top priority to work closely with our customers and suppliers in this tough and uncertain environment. With our strong financial strength and flexible operating structure, we are confident and well-positioned to capture any business opportunities as the market continues to recover.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2009, the Group employed approximately 10,300 (31st December, 2008: 11,600) 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 cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Code on Corporate Governance Practices (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 year ended 31st December, 2009 except for the deviations 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 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 the management of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, as at 31st December, 2009, and the consolidated statement of comprehensive income and the related notes thereto for the year then ended 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, 2009 have been reviewed by the audit committee of the Board 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, 2009.

PUBLICATION OF ANNUAL REPORT

The 2009 annual report will be despatched to the shareholders of the Company and will also available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk on or about 21st April, 2010.

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, 9th April, 2010