Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



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, 2011 AND DISCLOSABLE TRANSACTION IN RELATION

TO ACQUISITION OF PROPERTY

FINAL RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 2011 together with last year's comparative figures.

| FINANCIAL HIGHLIGHTS | | |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| Revenue | HK\$1,547,260,000 | HK\$1,361,026,000 |
| Profit attributable to the owners of the Company | HK\$112,213,000 | HK\$124,729,000 |
| Earnings per share | 29.2 HK cents | 32.5 HK cents |
| Final dividend per share | 6.5 HK cents | 7.0 HK cents |

^{*} For identification purpose only

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2011

| | Notes | 2011 HK\$'000 | 2010 HK\$'000 |
|---|--------|--|--|
| Revenue Cost of sales | 2 | 1,547,260 (1,210,077) | 1,361,026 (1,032,533) |
| Gross profit Other income Other gains and losses Distribution and selling expenses Administrative expenses Other expenses | 3 4 | 337,183 19,045 6,117 (32,527) (207,131) (983) | 328,493 12,717 4,325 (22,170) (180,519) (955) |
| Finance costs | 5 | (260) | (398) |
| Profit before tax Income tax expense Profit for the year | 6 7 | 121,444 (8,709) 112,735 | 141,493 (15,972) 125,521 |
| Other comprehensive income: Exchange differences arising on translation of foreign operations | | 25,875 | 27,936 |
| Total comprehensive income for the year | | 138,610 | 153,457 |
| Profit for the year attributable to: Owners of the Company Non-controlling interests | | 112,213 522 112,735 | 124,729 792 125,521 |
| Total comprehensive income attributable to: Owners of the Company Non-controlling interests | | 138,084 526 138,610 | 152,628 829 |
| Earnings per share - Basic | 9 | 29.2 HK cents | 32.5 HK cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2011

| | Notes | 2011 HK\$'000 | 2010 HK\$'000 |
|---|-------|--|---|
| Non-current Assets Property, plant and equipment Prepaid lease payments Deposits paid for acquisition of property, | | 605,370 53,927 | 588,187 53,057 |
| plant and equipment Intangible assets Loan receivable Available-for-sale investments Deferred tax assets | | 55,940 4,680 5,631 5,858 200 | 3,348 4,680 7,900 5,858 188 |
| | | 731,606 | 663,218 |
| Current Assets Inventories Debtors, deposits and prepayments Loan receivable Prepaid lease payments Tax recoverable Short-term bank deposits Bank balances and cash | 10 | 197,555 437,435 2,253 1,384 2,226 93,055 138,501 | 197,181 378,788 2,257 1,328 2,999 145,266 120,184 |
| | | 872,409 | 848,003 |
| Current Liabilities Creditors and accrued charges Bank borrowings Tax liabilities | 11 | 315,467 15,833 38 | 293,284 25,833 1,954 |
| | | 331,338 | 321,071 |
| Net Current Assets | | 541,071 | 526,932 |
| Total Assets less Current Liabilities | | 1,272,677 | 1,190,150 |
| Capital and Reserves Share capital Reserves | | 38,365 1,220,900 | 38,365 1,133,929 |
| Equity attributable to owners of the Compan Non-controlling interests | ny | 1,259,265 4,484 | 1,172,294 4,407 |
| Total Equity | | 1,263,749 | 1,176,701 |
| Non-current Liabilities Deferred tax liabilities | | 8,928 | 13,449 |
| | | 1,272,677 | 1,190,150 |
| | | | , , |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKFRSs Improvements to HKFRSs issued in 2010

HKAS 24 (as revised in 2009) Related Party Disclosures
Amendments to HKAS 32 Classification of Rights Issues

Amendments to HK(IFRIC) – Int 14 Prepayments of a Minimum Funding Requirement

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets¹

Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial

Liabilities²

Amendments to HKFRS 9 and Mandatory Effective Date of HKFRS 9 and Transition

HKFRS 7 Disclosures³

HKFRS 9 Financial Instruments³

HKFRS 10 Consolidated Financial Statements²

HKFRS 11 Joint Arrangements²

HKFRS 12 Disclosure of Interests in Other Entities²

HKFRS 13 Fair Value Measurement²

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income⁵
Amendments to HKAS 12 Deferred Tax – Recovery of Underlying Assets⁴

HKAS 19 (as revised in 2011) Employee Benefits²

HKAS 27 (as revised in 2011) Separate Financial Statements²

HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures²

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities⁶

HK(IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine²

- ¹ Effective for annual periods beginning on or after 1st July, 2011
- ² Effective for annual periods beginning on or after 1st January, 2013
- Effective for annual periods beginning on or after 1st January, 2015
- Effective for annual periods beginning on or after 1st January, 2012
- ⁵ Effective for annual periods beginning on or after 1st July, 2012
- ⁶ Effective for annual periods beginning on or after 1st January, 2014

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors of the Company (the "Directors") anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's classification and measurement of available-for-sale investments which are currently stated at cost less impairment and will be measured at fair value upon application. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 will be adopted in the Group's consolidated financial statements for annual periods beginning on 1st January, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

2. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance is focused on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31st December, 2011

| | Europe HK\$'000 | United States HK\$'000 | Asia <i>HK\$</i> '000 | Other regions <i>HK\$</i> '000 | Consolidated HK\$'000 |
|--|--------------------|--------------------------------|--------------------------|--------------------------------|-------------------------------------|
| Revenue External sales | 905,100 | 513,183 | 89,157 | 39,820 | 1,547,260 |
| Result Segment profit | 88,913 | 50,381 | 15,020 | 3,876 | 158,190 |
| Unallocated income Unallocated corporate expenses Interest income on bank deposits Finance costs | | | | | 1,826 (39,776) 1,464 (260) |
| Profit before tax | | | | | 121,444 |
| For the year ended 31st Dec | ember, 2010 | | | | |
| | Europe HK\$'000 | United States <i>HK\$</i> '000 | Asia <i>HK</i> \$'000 | Other regions <i>HK\$</i> '000 | Consolidated HK\$'000 |
| Revenue External sales | 839,210 | 405,124 | 81,971 | 34,721 | 1,361,026 |
| Result Segment profit | 107,698 | 53,019 | 13,377 | 4,248 | 178,342 |
| Unallocated income Unallocated corporate expenses Interest income on bank deposits Finance costs | | | | | 1,525 (39,356) 1,380 (398) |
| Profit before tax | | | | | 141,493 |

The accounting policies of the reportable and operating 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' emoluments, investment income, royalty income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

| | | 2011 HK\$'000 | 2010 HK\$'000 |
|----|--|------------------|------------------|
| | Included in other income are: | | |
| | Sales of scrap materials | 7,732 | 5,633 |
| | Compensation from customers | 6,602 | 3,523 |
| | Interest income on bank deposits | 1,464 | 1,380 |
| | Dividend income from available-for-sale investments | 1,438 | 943 |
| | Royalty income on intangible assets | 388 | 581 |
| 4. | OTHER GAINS AND LOSSES | | |
| | | 2011 | 2010 |
| | | HK\$'000 | HK\$'000 |
| | Net foreign exchange gains | 6,139 | 4,334 |
| | Net loss on disposal of property, plant and equipment | (22) | (9) |
| | <u>-</u> | 6,117 | 4,325 |
| 5. | FINANCE COSTS | | |
| | | 2011 | 2010 |
| | | HK\$'000 | HK\$'000 |
| | Interest on bank borrowings wholly repayable within five years | 260 | 398 |

6. INCOME TAX EXPENSE

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|------------------|------------------|
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | 12,970 | 15,191 |
| - Underprovision in respect of prior year | | 5 |
| | 12,970 | 15,196 |
| The People's Republic of China (the "PRC") | | |
| Enterprise Income Tax | | |
| - Current year | 112 | 44 |
| - Underprovision in respect of prior year | 160 | |
| | 272 | 44 |
| Deferred taxation | | |
| – Current year | (4,533) | 732 |
| | 8,709 | 15,972 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate was increased from 20% to 22% and from 22% to 24% for the years ended 31st December, 2010 and 31st December, 2011 respectively and will be increased to 25% in 2012 onwards in respect of those PRC subsidiaries established in the Shenzhen Special Economic Zone. The tax rate for those PRC subsidiaries established outside the Shenzhen Special Economic Zone was 25% in both years. PRC Enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 appointment 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 operated for both years.

7. PROFIT FOR THE YEAR

| | | 2011 HK\$'000 | 2010 HK\$'000 |
|------------------------|---|------------------|------------------|
| Profit for t | he year has been arrived at after charging: | | |
| Auditor's 1 | remuneration | 1,580 | 1,580 |
| | ventories recognised as an expense d allowance for inventories of HK\$1,320,000 | | |
| (2010: N | Vil)) | 1,210,077 | 1,032,533 |
| Depreciation | on of property, plant and equipment | 96,460 | 98,079 |
| Operating | lease rentals in respect of rented premises | 4,300 | 4,354 |
| Release of Staff costs | prepaid lease payments: | 1,292 | 977 |
| Director Other sta | s' emoluments | 3,934 | 2,467 |
| | aries and other allowances | 502,493 | 413,652 |
| | tributions to retirement benefit schemes | 14,672 | 9,650 |
| Total staff | costs | 521,099 | 425,769 |
| Allowance | for doubtful debts, net | 9,409 | 1,707 |
| 8. DIVIDEN | DS | | |
| | | 2011 | 2010 |
| | | HK\$'000 | HK\$'000 |
| Dividend r | ecognised as distribution during the year: | | |
| | lend paid in respect of 2010 of 7.0 HK cents | | |
| | .0 HK cents in respect of 2009) per share | 26,855 | 26,855 |
| | vidend paid in respect of 2011 of 6.5 HK cents | | |
| (2010: 6 | .5 HK cents in respect of 2010) per share | 24,938 | 24,938 |
| | | 51,793 | 51,793 |

A final dividend in respect of 2011 of 6.5 HK cents (2010: 7.0 HK cents) per share has been proposed by the Directors 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:

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|------------------|------------------|
| Earnings for the purpose of basic earnings per share | 112,213 | 124,729 |
| | 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 during 2011 and 2010.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2011 | 2010 |
|---|----------|----------|
| | HK\$'000 | HK\$'000 |
| Trade debtors | 454,368 | 387,882 |
| Less: Allowance for doubtful debts | (26,984) | (18,092) |
| | 427,384 | 369,790 |
| Bills receivable | 5,288 | 4,992 |
| Deposits and prepayments | 4,763 | 4,006 |
| Total debtors, deposits and prepayments | 437,435 | 378,788 |

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.

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--------------------|------------------|------------------|
| 0 – 90 days | 328,348 | 319,791 |
| 91 – 180 days | 97,912 | 44,766 |
| More than 180 days | 1,124 | 5,233 |
| | 427,384 | 369,790 |

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

| | 2011 HK\$'000 | 2010 HK\$'000 |
|------------------------------|------------------|------------------|
| 0 – 90 days 91 – 180 days | 5,263 25 | 4,852 140 |
| | 5,288 | 4,992 |

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

11. CREDITORS AND ACCRUED CHARGES

| | 2011 HK\$'000 | 2010 HK\$'000 |
|---|--------------------|--------------------|
| Trade creditors Other creditors and accrued charges | 157,092 158,375 | 158,709 134,575 |
| | 315,467 | 293,284 |

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

| 2011 | 2010 |
|----------|--------------------------------|
| HK\$'000 | HK\$'000 |
| 102,830 | 113,423 |
| 52,540 | 43,150 |
| 1,722 | 2,136 |
| 157,092 | 158,709 |
| | HK\$'000 102,830 52,540 1,722 |

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

DIVIDENDS

The Board has resolved to recommend a final dividend of 6.5 HK cents per share for the year ended 31st December, 2011. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 23rd May, 2012 (the "AGM"), the final dividend will be payable on or about 8th June, 2012 to shareholders whose names appear on the register of members of the Company on 30th May, 2012.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration

Closure of register of members 18th May, 2012 to 23rd May, 2012 (both dates inclusive)

Record date 23rd May, 2012

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents
for registration

Closure of register of members

Record date

4:30 pm on 28th May, 2012

(both May, 2012 to 30th May, 2012

(both dates inclusive)

30th May, 2012

During the above closure periods, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, and to qualify for the final dividend, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The notice of AGM 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 on or about 18th April, 2012.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 14% to HK\$1,547.3 million (2010: HK\$1,361.0 million) whereas the profit attributable to owners of the Company decreased by 10% to HK\$112.2 million (2010: HK\$124.7 million) in 2011. Basic earnings per share also decreased correspondingly by 10% to 29.2 HK cents (2010: 32.5 HK cents) in 2011.

Like most of the manufacturers operating in mainland China, the gross margin of the core businesses of the Group continued to be under pressure. The Group raised the wages of its workers in mainland China twice (in January and April) in 2011 to maintain its competitiveness in the tight labour market. Inflation remained high in mainland China and Renminbi appreciated by more than 4% against both United States ("US") dollars and Hong Kong dollars. All these negative cost factors dragged down the gross profit ratio (being the ratio of gross profit to revenue) of the Group by 2.3% from 24.1% in 2010 to 21.8% in 2011. The net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) decreased by 1.9% from 9.2% in 2010 to 7.3% in 2011.

Original design manufacturing (ODM) division

Sales to ODM customers increased by 15% from HK\$1,238.5 million in 2010 to HK\$1,418.8 million in 2011. Geographically, sales to Europe, the US and Asia were up by 9%, 27% and 14% respectively. Europe, the US, Asia and other regions accounted for 59%, 36%, 4% and 1% respectively (2010: 62%, 32%, 4% and 2% respectively) of the revenue of the ODM division in 2011. The relatively satisfactory sales performance was mainly attributable to the higher level of sales orders received before the market began to slowdown in mid-2011 amid concerns over the spread of European sovereign debt crisis and double-dip recession in the US. Sales of prescription frames grew modestly by 7% whereas sales of sunglasses were up by 27% in 2011. The trend and change in sales mix were the results of increased emphasis placed by the global leaders of the eyewear industry on sunglasses carrying fashion labels. Sales of prescription frames, sunglasses and spare parts accounted for 53%, 46% and 1% respectively of the revenue of this division in 2011 (2010: 57%, 41% and 2% respectively).

Distribution and retailing divisions

Revenue from the distribution division increased modestly by 5% from HK\$118.1 million in 2010 to HK\$124.3 million in 2011. Sales in Europe, the biggest market of the distribution division, were flat. Sales to emerging markets such as Brazil were excellent and offset the decline in sales in the North American markets. Sales to Europe, Asia, North America and other regions accounted for 55%, 26%, 4% and 15% respectively of the revenue of the distribution division in 2011 (2010: 59%, 26%, 5% and 10% respectively).

The retailing division of the Group operated a total of 3 shops in Shenzhen in both 2010 and 2011. Revenue of this division remained relatively flat at HK\$4.2 million in 2011 (2010: HK\$4.4 million).

Financial position and liquidity

Working capital management

The Group maintained a stable current ratio (being the ratio of total current assets to total current liabilities) during the year under review. The current ratio of the Group remained at 2.6 to 1.0 at both 31st December, 2011 and 31st December, 2010. As the market began to soften since mid-2011, the Group had taken appropriate action to scale down its production volume. Inventory balances remained fairly stable at about HK\$197.6 million as at 31st December, 2011 (31st December, 2010: HK\$197.2 million) despite the increase in revenue by 14% in 2011. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased accordingly from 70 days in 2010 to 60 days in 2011. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased slightly from 101 days in 2010 to 102 days in 2011.

Cash flows

The Group's operating activities generated a healthy net cash inflow of HK\$227.3 million (2010: HK\$240.3 million) before movements in working capital and HK\$176.8 million (2010: HK\$160.8 million) after movements in working capital in 2011. Net increase in working capital of HK\$50.5 million in 2011 was relatively low as compared with HK\$79.5 million of 2010 because of the effects of adjustment in production volume since mid-2011 as explained above. Capital expenditure was still high at HK\$142.7 million (2010: HK\$106.8 million) as the Group continued to execute its reinvestment plan of equipment upgrade and factory relocation. Total dividend payments of HK\$51.8 million were made in both 2011 and 2010. The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK\$239.6 million as at 31st December, 2010 to HK\$215.7 million as at 31st December, 2011.

Gearing position

The Group continued to keep a low gearing position throughout 2011. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$8.9 million as at 31st December, 2011 (31st December, 2010: HK\$13.4 million). The debt to equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) declined from 1.1% as at 31st December, 2010 to 0.7% as at 31st December, 2011.

Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2011 and 31st December, 2010 with an equity attributable to owners of the Company amounting to HK\$1,259.3 million and HK\$1,172.3 million as at 31st December, 2011 and 31st December, 2010 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 31st December, 2011 was HK\$3.28 (31st December, 2010: HK\$3.06).

Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both US dollars and Hong Kong dollars. 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 the exchange rate movements between US dollars and Hong Kong dollars were relatively stable during the year under review.

Contingent liabilities

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|------------------|------------------|
| Corporate guarantee to a financial institution | | |
| in respect of banking facilities granted to | | |
| a trade debtor | 9,709 | 9,729 |

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2010 and 31st December, 2011 are insignificant and of low applicable default risk. Accordingly, the Group has not recognised any liability in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

The demand for the Group's products is still affected by the uncertainty and volatility of the global economy amid the long and fragile economic recoveries in the US and debtridden Europe. Although the Group still maintains a stable order book of around three months sales order on hand for its ODM and distribution divisions, the management is monitoring the exports performance closely and implementing appropriate measures to enhance the flexibility and productivity of its workforce. The factory relocation plans to Pingdi Town, Shenzhen City and Heyuan City will be implemented in phases by taking into account both the short term and long term impact of changes in the external macroeconomic environment and local government policies.

The cost pressure on our operating margin remains high. The minimum wages in China keeps rising as a result of the government's initiative to boost domestic consumption and narrow a widen poverty gap. The minimum wages in Shenzhen was further raised by 14% in February 2012 after a 20% increment in April 2011. The Chinese government is also under continuous external pressure to appreciate the Renminbi. Price adjustment, operational efficiency improvements and increased sales of higher margin products can only alleviate part of the cost pressure.

The Group is committed to increase the contributions from its higher margin distribution business. The launching of two house brands, $C \to O \cdot V$ in Hong Kong Optical Fair in November 2011 and **BOXX** in the trade fair in Milan in March 2012, will provide further growth momentum to the distribution division. Limited contribution from the retailing division is expected in 2012 as there will not be any significant change of its operating scale.

As a manufacturer with its production base in China and major exports market of Europe and the US, 2012 will definitely a challenging year for the Group. With its solid financial position and flexible operational base, the management is confident that the Group can weather the challenges together with the its professional, loyal and creative workforce.

UPDATE ON THE ACQUISITION OF PROPERTY

Reference is made to the Company's announcement dated 25th October, 2011 in relation to the sale and purchase agreement entered into between Sin Dak Industrial Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, and Bright Treasure Development Limited (the "Vendor") with respect to the whole of the 32nd Floor of, and nine car parks on the 2nd Floor of, No. 55 King Yip Street, Kowloon, Hong Kong (the "Property") (the "SPA"). According to the said announcement, completion was expected to take place in March 2012.

Pursuant to the SPA, completion will take place within 14 days of the date of the Purchaser being notified in writing that: (a) the occupation permit has been issued and the Vendor is in the position validly to assign the Property to the Purchaser; or (b) the occupation permit and the certificate of compliance have been issued; whichever is earlier. The Company has been advised that the construction of the building where the Property is located is expected to complete within a few months. As such, the management expects that completion of the SPA will take place before December 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2011, the Group employed approximately 10,500 (31st December, 2010: 11,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes, 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, 2011 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, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2011 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.

REVIEW OF ACCOUNTS

The Group's consolidated financial statements for the year ended 31st December, 2011 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, 2011.

PUBLICATION OF ANNUAL REPORT

The 2011 annual 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 on or about 18th April, 2012.

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, 29th March, 2012