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## 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, 2012

#### FINAL RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 2012 together with last year's comparative figures.

| FINANCIAL HIGHLIGHTS                             |                   |                   |
|--|-------------------|-------------------|
|  | 2012              | 2011              |
| Revenue  | HK\$1,475,482,000 | HK\$1,547,260,000 |
| Profit attributable to the owners of the Company | HK\$48,854,000    | HK\$112,213,000   |
| Earnings per share                               | 12.7 HK cents     | 29.2 HK cents     |
| Final dividend per share                         | 2.5 HK cents      | 6.5 HK cents      |

<sup>\*</sup> For identification purpose only

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2012

| 101 me year enaca e1st zecember, 2012                             | Notes | 2012<br>HK\$'000         | 2011<br>HK\$'000         |
|---|-------|--------------------------|--------------------------|
| Revenue<br>Cost of sales  | 2     | 1,475,482<br>(1,202,087) | 1,547,260<br>(1,210,077) |
| Cross profit  |       | 273,395                  | 227 192                  |
| Gross profit Other income   | 3     | 23,788                   | 337,183<br>19,045        |
| Other gains and losses  | 4     | 2,403                    | 6,117                    |
| Distribution and selling expenses                                 | 7     | (28,707)                 | (32,527)                 |
| Administrative expenses   |       | (213,170)                | (207,131)                |
| Other expenses  |       | (1,142)                  | (983)                    |
| Finance costs   | 5     | (1,070)                  | (260)                    |
| Share of profit of a jointly controlled entity                    | 3     | 171                      |                          |
| Profit before tax   |       | 55,668                   | 121,444                  |
| Income tax expense  | 6     | (5,316)                  | (8,709)                  |
| Profit for the year   | 7     | 50,352                   | 112,735                  |
| Other comprehensive income:                                       |       |                          |                          |
| Exchange differences arising on translation of foreign operations |       | 3,943                    | 25,875                   |
| Total comprehensive income for the year                           |       | 54,295                   | 138,610                  |
| Profit for the year attributable to:                              |       |                          |                          |
| Owners of the Company   |       | 48,854                   | 112,213                  |
| Non-controlling interests   |       | 1,498                    | 522                      |
|   |       | 50,352                   | 112,735                  |
| Total comprehensive income attributable to:                       |       |                          |                          |
| Owners of the Company   |       | 52,808                   | 138,084                  |
| Non-controlling interests   |       | 1,487                    | 526                      |
|   |       | 54,295                   | 138,610                  |
| Earnings per share  | 9     |                          |                          |
| – Basic   |       | 12.7 HK cents            | 29.2 HK cents            |

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *At 31st December, 2012*

| At 31st December, 2012  |       |                  | • |
|---|-------|------------------|---|
|   | Notes | 2012<br>HK\$'000 | 2011<br>HK\$'000                        |
| Non-current Assets  |       |                  |   |
| Property, plant and equipment                                     |       | 762,197          | 605,370                                 |
| Prepaid lease payments Deposits paid for acquisition of property, |       | 65,423           | 53,927                                  |
| plant and equipment   |       | 537              | 55,940                                  |
| Intangible assets   |       | 4,680            | 4,680                                   |
| Interest in a jointly controlled entity                           |       | 4,797            | 4,000                                   |
| Loan receivable   |       | 3,388            | 5,631                                   |
| Available-for-sale investments                                    |       | 5,858            | 5,858                                   |
| Deferred tax assets   |       | 188              | 200                                     |
|   |       | 847,068          | 731,606                                 |
|   |       |                  |   |
| Current Assets  |       | 107 525          | 107.555                                 |
| Inventories   | 1.0   | 196,537          | 197,555                                 |
| Debtors, deposits and prepayments                                 | 10    | 413,475          | 437,435                                 |
| Loan receivable   |       | 2,248            | 2,253                                   |
| Prepaid lease payments  |       | 1,578            | 1,384                                   |
| Tax recoverable   |       | 1,953<br>34,703  | 2,226                                   |
| Short-term bank deposits Bank balances and cash                   |       | 143,082          | 93,055<br>138,501                       |
| Bank barances and cash  |       | 143,082          | 136,301                                 |
|   |       | 793,576          | 872,409                                 |
| Current Liabilities   |       |                  |   |
| Creditors and accrued charges                                     | 11    | 301,406          | 315,467                                 |
| Bank borrowings   |       | 51,195           | 15,833                                  |
| Tax liabilities   |       | 535              | 38                                      |
|   |       | 353,136          | 331,338                                 |
| Net Current Assets  |       | 440,440          | 541,071                                 |
| <b>Total Assets less Current Liabilities</b>                      |       | 1,287,508        | 1,272,677                               |
| Total Assets less Current Diabilities                             |       | 1,207,500        | 1,272,077                               |
| Capital and Reserves  |       |                  |   |
| Share capital   |       | 38,365           | 38,365                                  |
| Reserves  |       | 1,234,947        | 1,220,900                               |
| Equity attributable to owners of the Compar                       | nv.   | 1,273,312        | 1,259,265                               |
| Non-controlling interests   | 1 y   | 5,829            | 4,484                                   |
| Tyon-controlling interests  |       | 3,027            |   |
| <b>Total Equity</b>   |       | 1,279,141        | 1,263,749                               |
| Non-current Liabilities   |       |                  |   |
| Deferred tax liabilities  |       | 8,367            | 8,928                                   |
|   |       | 1,287,508        | 1,272,677                               |
|   |       |                  |   |

#### 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKFRS 7 Financial Instruments: Disclosures - Transfers of Financial

Assets

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Asset

The application of the amendments to 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 HKFRSs  | Annual Improvements to HKFRSs 2009 - 2011 Cycle <sup>1</sup> |
|-----------------------|--|
| Amendments to HKFRS 7 | Disclosures - Offsetting Financial Assets and Financial      |

Liabilities1

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

and HKFRS 7 Disclosures<sup>2</sup>

Amendments to HKFRS 10, Consolidated Financial Statements, Joint Arrangements and

HKFRS 11 and HKFRS 12 Disclosure of Interests in Other Entities: Transition

Guidance1

Amendments to HKFRS 10, Investment Entities<sup>4</sup>

HKFRS 12 and HKAS 27

HKFRS 9 Financial Instruments<sup>2</sup>

HKFRS 10 Consolidated Financial Statements<sup>1</sup>

HKFRS 11 Joint Arrangements<sup>1</sup>

HKFRS 12 Disclosure of Interests in Other Entities<sup>1</sup>

HKFRS 13 Fair Value Measurement<sup>1</sup>

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income<sup>3</sup>

HKAS 19 (revised 2011) Employee Benefits<sup>1</sup>

HKAS 27 (revised 2011) Separate Financial Statements<sup>1</sup>

HKAS 28 (revised 2011) Investments in Associates and Joint Ventures<sup>1</sup>

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities<sup>4</sup>

HK(IFRIC) - Int 20 Stripping Costs in the Production Phase of a Surface Mine<sup>1</sup>

<sup>&</sup>lt;sup>1</sup> Effective for annual periods beginning on or after 1st January, 2013

<sup>&</sup>lt;sup>2</sup> Effective for annual periods beginning on or after 1st January, 2015

<sup>&</sup>lt;sup>3</sup> Effective for annual periods beginning on or after 1st July, 2012

<sup>&</sup>lt;sup>4</sup> Effective for annual periods beginning on or after 1st January, 2014

#### **HKFRS 9 "Financial Instruments"**

HKFRS 9 issued in November 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 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 investment, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures" and HK(SIC)-Int 13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards together with the amendments relating to the transitional guidance are effective for the annual periods beginning on or after 1st January, 2013. The Directors reviewed and assessed the legal form and terms of the contractual arrangement in relation to the Group's investment in a jointly controlled entity and anticipate that the adoption of HKFRS 11 will have no significant impact on the Group's consolidated financial statements.

#### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 will be adopted in the Group's consolidated financial statements for annual period 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, 2012

|   | Europe<br><i>HK\$</i> '000 | United<br>States<br>HK\$'000 | Asia<br><i>HK</i> \$'000 | Other regions <i>HK\$</i> '000 | Consolidated HK\$'000                 |
|---|----------------------------|------------------------------|--------------------------|--------------------------------|---------------------------------------|
| Revenue<br>External sales   | 971,735                    | 363,804                      | 95,153                   | 44,790                         | 1,475,482                             |
| Result Segment profit   | 64,772                     | 22,518                       | 12,040                   | 2,845                          | 102,175                               |
| Unallocated income Unallocated corporate expenses Interest income on bank deposits Finance costs Share of profit of a jointly controlled entity |                            |                              |                          |                                | 2,380<br>(49,335)<br>1,347<br>(1,070) |
| Profit before tax  For the year ended 31s.  | t Dacambar 20              | 11                           |                          |                                | 55,668                                |
| For the year ended 51s.   | Europe  HK\$'000           | United States HK\$'000       | Asia<br><i>HK</i> \$'000 | Other regions <i>HK</i> \$'000 | Consolidated HK\$'000                 |
| Revenue<br>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                               |

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

|    |  | 2012     | 2011     |
|----|--|----------|----------|
|    |  | HK\$'000 | HK\$'000 |
|    | Included in other income are:                                  |          |          |
|    | Sales of scrap materials                                       | 7,606    | 7,732    |
|    | Compensation from customers                                    | 11,569   | 6,602    |
|    | Interest income on bank deposits                               | 1,347    | 1,464    |
|    | Dividend income from available-for-sale investments            | 1,030    | 1,438    |
|    | Royalty income on intangible assets                            | 465      | 388      |
| 4. | OTHER GAINS AND LOSSES   |          |          |
|    |  | 2012     | 2011     |
|    |  | HK\$'000 | HK\$'000 |
|    | Net foreign exchange gains                                     | 1,052    | 6,139    |
|    | Net gain (loss) on disposal of property, plant and equipment   | 1,351    | (22)     |
|    |  | 2,403    | 6,117    |
| 5. | FINANCE COSTS  |          |          |
|    |  | 2012     | 2011     |
|    |  | HK\$'000 | HK\$'000 |
|    | Interest on bank borrowings wholly repayable within five years | 246      | 260      |
|    | Interest on bank borrowings wholly repayable after five years  | 824      |          |
|    |  | 1,070    | 260      |

#### 6. INCOME TAX EXPENSE

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| The charge comprises:  |                  |                  |
| Hong Kong Profits Tax  |                  |                  |
| <ul> <li>Current year</li> </ul>                                 | 5,801            | 12,970           |
| - Overprovision in respect of prior year                         | (55)             |                  |
|  | 5,746            | 12,970           |
| The People's Republic of China (the "PRC") Enterprise Income Tax |                  |                  |
| – Current year   | 92               | 112              |
| <ul> <li>Underprovision in respect of prior year</li> </ul>      | 27               | 160              |
|  | 119              | 272              |
| Deferred taxation  |                  |                  |
| – Current year   | (549)            | (4,533)          |
|  | 5,316            | 8,709            |

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 25% (2011: 24%) 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

|    |   | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|----|---|------------------|------------------|
|    | Profit for the year has been arrived at after charging:   |                  |                  |
|    | Auditor's remuneration  | 1,580            | 1,580            |
|    | Cost of inventories recognised as an expense (included allowance for inventories of HK\$5,284,000 |                  |                  |
|    | (2011: HK\$1,320,000))  | 1,202,087        | 1,210,077        |
|    | Depreciation of property, plant and equipment   | 95,958           | 96,460           |
|    | Operating lease rentals in respect of rented premises   | 4,526            | 4,300            |
|    | Release of prepaid lease payments   | 1,489            | 1,292            |
|    | Staff costs:  |                  |                  |
|    | Directors' emoluments   | 3,706            | 3,934            |
|    | Other staff   |                  |                  |
|    | <ul> <li>Salaries and other allowances</li> </ul>   | 534,865          | 502,493          |
|    | - Contributions to retirement benefit schemes   | 19,768           | 14,672           |
|    | Total staff costs   | 558,339          | 521,099          |
|    | Allowance for doubtful debts, net   | 7,659            | 9,409            |
| 8. | DIVIDENDS   |                  |                  |
|    |   | 2012             | 2011             |
|    |   | HK\$'000         | HK\$'000         |
|    | Dividend recognised as distribution during the year:  |                  |                  |
|    | Final dividend paid of 6.5 HK cents in respect of 2011  |                  |                  |
|    | (2011: 7.0 HK cents in respect of 2010) per share   | 24,937           | 26,855           |
|    | Interim dividend paid of 4.0 HK cents in respect of 2012  |                  |                  |
|    | (2011: 6.5 HK cents in respect of 2011) per share   | 15,346           | 24,938           |
|    |   | 40,283           | 51,793           |
|    |   |                  |                  |

A final dividend of 2.5 HK cents in respect of 2012 (2011: 6.5 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:

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Earnings for the purpose of basic earnings per share         | 48,854           | 112,213          |
|  | Number           | of shares        |
| Number of shares for the purpose of basic earnings per share | 383,650,000      | 383,650,000      |

No diluted earnings per share have been presented as there were no potential ordinary shares in issue during 2012 and 2011.

## 10. DEBTORS, DEPOSITS AND PREPAYMENTS

|   | 2012     | 2011     |
|---|----------|----------|
|   | HK\$'000 | HK\$'000 |
| Trade debtors                           | 433,120  | 454,368  |
| Less: Allowance for doubtful debts      | (30,227) | (26,984) |
|   | 402,893  | 427,384  |
| Bills receivable                        | 3,455    | 5,288    |
| Deposits and prepayments                | 7,127    | 4,763    |
| Total debtors, deposits and prepayments | 413,475  | 437,435  |

The following is an aged analysis of trade debtors net of allowance for doubtful debts based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

|                    | 2012     | 2011     |
|--------------------|----------|----------|
|                    | HK\$'000 | HK\$'000 |
| 0 - 90 days        | 311,185  | 328,348  |
| 91 - 180 days      | 91,107   | 97,912   |
| More than 180 days | 601      | 1,124    |
|                    | 402,893  | 427,384  |

The following is an aged analysis of bills receivable based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

|                              | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|------------------------------|------------------|------------------|
| 0 - 90 days<br>91 - 180 days | 2,691<br>764     | 5,263            |
|                              | 3,455            | 5,288            |

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

|   | 2012<br>HK\$'000   | 2011<br>HK\$'000   |
|---|--------------------|--------------------|
| Trade creditors Other creditors and accrued charges | 149,608<br>151,798 | 157,092<br>158,375 |
|   | 301,406            | 315,467            |

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

|                    | 2012     | 2011     |
|--------------------|----------|----------|
|                    | HK\$'000 | HK\$'000 |
| 0 - 60 days        | 101,166  | 102,830  |
| 61 - 120 days      | 44,357   | 52,540   |
| More than 120 days | 4,085    | 1,722    |
|                    | 149,608  | 157,092  |

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

#### **DIVIDENDS**

The Board has resolved to recommend a final dividend of 2.5 HK cents per share for the year ended 31st December, 2012 (2011: 6.5 HK cents per share). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 23rd May, 2013 (the "AGM"), the final dividend will be payable on or about 13th June, 2013 to shareholders whose names appear on the register of members of the Company on 30th May, 2013.

#### **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 4:30 pm on 16th May, 2013

for registration

Closure of register of members 20th May, 2013 to 23rd May, 2013

(both dates inclusive)

Record date 23rd May, 2013

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents 4:30 pm on 28th May, 2013

for registration

Closure of register of members 29th May, 2013 to 30th May, 2013

(both dates inclusive)

Record date 30th May, 2013

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 17th April, 2013.

#### **BUSINESS REVIEW**

#### Profitability analysis

The Group's consolidated revenue decreased by 5% to HK\$1,475.5 million (2011: HK\$1,547.3 million) whereas the profit attributable to owners of the Company decreased by 56% to HK\$48.9 million (2011: HK\$112.2 million) in 2012. Basic earnings per share also decreased correspondingly by 56% to 12.7 HK cents (2011: 29.2 HK cents) in 2012.

As reported in the 2012 Interim Report, 2012 was the most challenging and difficult year the Group has faced since the listing of the Company in 1996. The Board issued two "Profit Warning" announcements on 30th May, 2012 and 20th December, 2012. The significant decrease in net profit of the Group was attributable to various factors, including (i) the increase in labour costs after the statutory minimum wage in Shenzhen, where the Group's main manufacturing facilities were located, increased by 14% in February 2012; and (ii) the appreciation of Renminbi against both United States ("US") dollar and Hong Kong dollar throughout 2012. Accordingly, the gross profit ratio (being the ratio of gross profit to revenue) of the Group decreased by 3.3% from 21.8% in 2011 to 18.5% in 2012. The net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) also decreased by 4.0% from 7.3% in 2011 to 3.3% in 2012.

#### Original design manufacturing (ODM) division

Revenue generated by the ODM division represented 90% of the consolidated revenue of the Group in 2012 (2011: 92%). The exports market remained soft in 2012 amid concerns over the spread of the European sovereign debt crisis and repercussions of the fiscal cliff in the US. Sales to ODM customers decreased by 6% from HK\$1,418.8 million in 2011 to HK\$1,331.1 million in 2012. Sales to Europe, the US, Asia and other regions accounted for 67%, 27%, 4% and 2% respectively (2011: 59%, 36%, 4% and 1% respectively) of the revenue of the ODM division in 2012. The increase in proportion of sales to Europe reflected the increased dominance of the market by the leading Italian eyewear companies that distributed their portfolio of branded products through their global distribution or retailing networks. The de-stocking exercise carried out by some major American customers also resulted in drop in sales to the US market. Sales of sunglasses, prescription frames and spare parts accounted for 50%, 48% and 2% respectively of the revenue of this division in 2012 (2011: 46%, 53% and 1% respectively). The change in sales mix also matched with the increased emphasis placed by the global leaders of the eyewear industry on sunglasses carrying fashion labels.

#### Distribution and retailing divisions

The distribution division accounted for 10% of the consolidated revenue of the Group in 2012 (2011: 8%). The Group replaced the two licensed brands (Fiorucci and Pantone) by its own brands C E O·V and BOXX in 2012. The response was encouraging and revenue generated by the distribution division recorded a satisfactory growth of 13% from HK\$124.3 million in 2011 to HK\$140.1 million in 2012. Sales to Europe, Asia, North America and other regions accounted for 54%, 24%, 8% and 14% respectively of the revenue of the distribution division in 2012 (2011: 55%, 26%, 4% and 15% respectively). All geographical segments reported growth in revenue in 2012.

The retailing division contributed less than 1% to the consolidated revenue of the Group in both 2012 and 2011. Revenue of this division remained relatively flat at HK\$4.3 million in 2012 (2011: HK\$4.2 million) although the Group closed 2 shops during the year.

#### Financial position and liquidity

#### Cash Flows

The Group's operating activities continued to generate a healthy net cash inflow of HK\$153.9 million (2011: HK\$162.4 million) despite a significant decline in the profitability of the Group in 2012. Capital expenditure increased substantially from HK\$142.7 million in 2011 to HK\$206.5 million in 2012 as the Group completed the acquisition of its new office in Hong Kong with a total cost of HK\$99.0 million which was financed by the Group's internal resources and a bank loan of HK\$47.6 million. Total dividend payments of HK\$40.9 million were made in 2012 (2011: HK\$52.5 million). Accordingly, 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\$215.7 million as at 31st December, 2011 to HK\$126.6 million as at 31st December, 2012.

## Working capital management

The Group had been scaling down its production volume amid the weak external market demand since mid-2011. Inventory balances declined slightly by 1% from about HK\$197.6 million as at 31st December, 2011 to HK\$196.5 million as at 31st December, 2012. Inventory turnover period (being the ratio of inventory balances to cost of sales) remained stable at 60 days in both 2011 and 2012. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) improved from 102 days in 2011 to 101 days in 2012. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.6 to 1.0 as at 31st December, 2011 to 2.2 to 1.0 as at 31st December, 2012 mainly as a result of the reduction in its net cash position.

#### Gearing position

The gearing position of the Group remained low throughout 2012. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at 0.7% as at 31st December, 2011 and 31st December, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$8.4 million as at 31st December, 2012 (31st December, 2011: HK\$8.9 million).

#### Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2012 and 31st December, 2011 with an equity attributable to owners of the Company amounting to HK\$1,273.3 million and HK\$1,259.3 million as at 31st December, 2012 and 31st December, 2011 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, 2012 was HK\$3.32 (31st December, 2011: HK\$3.28).

#### 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

|  | 2012<br>HK\$'000 | 2011<br><i>HK\$'000</i> |
|--|------------------|-------------------------|
| Corporate guarantee to a financial institution in respect of banking facilities granted to |                  |                         |
| an independent trade debtor  | 9,690            | 9,709                   |

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2011 and 31st December, 2012 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**

Major markets of the Group's ODM division are still mired in many macroeconomic uncertainties and challenges in 2013. Worry over the effects of high unemployment rates in Europe and automatic spending cut on US federal spending heavily affect our customers' confidence in procurement. The management continues to adopt measures to maintain the flexibility and enhance the productivity of its labour force to cope with the increased volatility of the order book. Currently, the Group's ODM and distribution divisions have three months' sales order on hand.

The Group is determined to increase the proportion of revenue contribution by its distribution division. The Group has gained considerable experience from the success of its German house brand STEPPER. Its extensive global distributor network provides an excellent platform for selling other house brand products of the Group. More new brands will be launched in the coming years after recent launching of two house brands, C E O·V and BOXX in 2011 and 2012 respectively.

Our operating margin will continue to be adversely affected by the cost pressure arising from the appreciation of Renminbi and the rise in labour costs in China. The minimum wages in Shenzhen was raised by 7% in March 2013 after a 14% increment in February 2012 whereas the minimum wages in other areas of Guangdong province will also be raised by an average of 19% in May 2013. Given the current external market environment, price adjustments on the Group's products can only be modest and the Group strives to absorb part of the impact by operational efficiency improvement and the sale of higher margin house brand products.

The factory relocations from the exiting factory in Long Gang Area, Shenzhen City to the two new factories in Pingdi Town, Shenzhen City and Heyuan City are underway and implemented in phases in order to ensure that service to our customers will not be jeopardized. The Group is also negotiating with the local government on the future use of the land occupied by the existing factory in Long Gang Area.

The eyewear industry is still full of opportunities. Aging population, increased awareness of eyecare and vision correction, improved affluence of the emerging markets and the ultimate rebound of the economy of the developed countries are all long term drivers to growth. Although the outlook for 2013 remains uncertain, the management believes that given the strong and solid fundamentals, business strategy and model of the Group, it is well-positioned to weather the short term challenges and capture long term opportunities.

#### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st December, 2012, the Group employed approximately 10,200 (31st December, 2011: 10,500) 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1st April, 2012.

The Company had complied with all applicable code provisions set out in the Old Code during the period from 1st January, 2012 to 31st March, 2012 and the CG Code during the period from 1st April, 2012 to 31st December, 2012, except for deviation from code provision A.2.1 of both the Old Code and CG Code. Code provision A.2.1 of the Old Code and 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 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, 2012 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, 2012 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 has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2012.

#### PUBLICATION OF ANNUAL REPORT

The 2012 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 17th April, 2013.

#### **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, 27th March, 2013