Arts Group

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

FINAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER, 2016

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, 2016 together with last year's comparative figures.

FINANCIAL HIGHLIGHTS

	2016	2015
Revenue	**HK$1,255,126,000**	HK$1,382,427,000
Profit (loss) attributable to owners of the Company	**HK$835,754,000**	HK$(48,873,000)
Earnings (loss) per share	**HK$2.18**	HK$(0.13)
Final dividend per share	**Nil**	Nil
Second special dividend per share	**25.0 HK cents**	3.8 HK cents

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31st December, 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	2	**1,255,126**	1,382,427
Cost of sales		**(1,095,052)**	(1,131,379)
Gross profit		**160,074**	251,048
Other income	3	**28,731**	28,152
Other gains and losses	4	**72,764**	46,002
Net gain (expenses) relating to the disposal of land and premises	5	**1,218,783**	(15,815)
Distribution and selling expenses		**(28,582)**	(36,178)
Administrative expenses		**(606,569)**	(307,653)
Other expenses		**(2,569)**	(824)
Finance costs	6	**(4,891)**	(1,641)
Share of profit of an associate		**6,482**	752
Share of (loss) profit of a joint venture		**(193)**	156
Profit (loss) before tax		**844,030**	(36,001)
Income tax expense	7	**(3,612)**	(7,296)
Profit (loss) for the year	8	**840,418**	(43,297)
Other comprehensive expense:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(49,028)**	(63,769)
Total comprehensive income (expense) for the year		**791,390**	(107,066)
Profit (loss) for the year attributable to:			
Owners of the Company		**835,754**	(48,873)
Non-controlling interests		**4,664**	5,576
		840,418	(43,297)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**788,108**	(112,611)
Non-controlling interests		**3,282**	5,545
		791,390	(107,066)
Earnings (loss) per share	10		
– Basic		**HK$2.18**	HK$(0.13)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current Assets			
Investment properties		**141,480**	140,850
Property, plant and equipment		**1,084,173**	972,937
Prepaid lease payments		**64,472**	73,017
Deposits paid for acquisition of property, plant and equipment		**1,692**	14,179
Intangible assets		**13,128**	16,732
Goodwill		**7,455**	8,979
Interest in an associate		**25,195**	20,369
Interest in a joint venture		**–**	5,024
Loan receivable		**–**	1,260
Other receivables		**1,400**	5,479
Deferred tax assets		**186**	229
		1,339,181	1,259,055
Current Assets			
Inventories		**162,882**	191,805
Debtors, deposits and prepayments	11	**357,449**	405,753
Other receivables		**894**	2,202
Prepaid lease payments		**1,467**	1,743
Derivative financial instruments		**128**	–
Tax recoverable		**2,647**	2,852
Short-term bank deposits		**555,855**	23,030
Bank balances and cash		**73,234**	194,870
		1,154,556	822,255
Current Liabilities			
Creditors, deposit received and accrued charges	12	**424,953**	919,124
Bank borrowings	13	**218,857**	68,693
Tax liabilities		**2,347**	2,247
		646,157	990,064
Net Current Assets (Liabilities)		**508,399**	(167,809)
Total Assets less Current Liabilities		**1,847,580**	1,091,246
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,781,710**	1,023,545
Equity attributable to owners of the Company		**1,820,075**	1,061,910
Non-controlling interests		**16,517**	17,230
Total Equity		**1,836,592**	1,079,140
Non-current Liabilities			
Deferred tax liabilities		**10,988**	12,106
		1,847,580	1,091,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2016

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

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

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.

2. SEGMENT INFORMATION

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

Segment revenues and results

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

For the year ended 31st December, 2016

	Europe	**United States**	**Asia**	**Other regions**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue					
External sales	**765,819**	**343,105**	**121,080**	**25,122**	**1,255,126**
Result					
Segment (loss) profit	**(21,727)**	**(26,969)**	**(1,665)**	**2,531**	**(47,830)**
Unallocated income					**82,429**
Unallocated corporate expenses					**(414,059)**
Net gain relating to the disposal of land and premises					**1,218,783**
Interest income on bank deposits					**3,309**
Finance costs					**(4,891)**
Share of profit of an associate					**6,482**
Share of loss of a joint venture					**(193)**
Profit before tax					**844,030**

For the year ended 31st December, 2015

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	870,830	334,852	145,797	30,948	1,382,427
Result					
Segment profit (loss)	20,201	(3,165)	(3,037)	2,618	16,617
Unallocated income					61,994
Unallocated corporate expenses					(106,531)
Expenses relating to the disposal of land and premises					(15,815)
Interest income on bank deposits					8,467
Finance costs					(1,641)
Share of profit of an associate					752
Share of profit of a joint venture					156
Loss before tax					(36,001)

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, economic compensation, property rental income, increase in fair values of investment properties, finance costs, net gain or expenses relating to the disposal of land and premises, share of profit of an associate, share of profit or loss of a joint venture as well as impairment losses of investment in a joint venture and loan receivable. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Included in other income are:		
Sales of scrap materials	**4,290**	5,352
Sales of construction materials	**6,073**	–
Compensation from customers	**3,960**	8,491
Interest income on bank deposits	**3,309**	8,467
Gross rental income from investment properties	**2,968**	3,630
Government subsidy	**5,311**	–

4. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Net foreign exchange gains	**78,831**	47,350
Net (loss) gain on disposal of property, plant and equipment	**(115)**	415
Increase in fair values of investment properties	**630**	10,600
Increase in fair values of derivative financial instruments	**164**	–
Impairment loss of trademark	**(820)**	–
Impairment loss of investment in a joint venture	**(4,666)**	–
Impairment loss of loan receivable	**(1,260)**	(12,363)
	72,764	46,002

5. NET GAIN (EXPENSE) RELATING TO THE DISPOSAL OF LAND AND PREMISES

Pursuant to the relocation agreement, supplemental agreement and second supplemental agreement to the relocation agreement (collectively the "Agreements"), details of which are disclosed in the Company's announcements dated 19th August, 2014, 8th October, 2014, 13th October, 2015, 3rd May, 2016, 30th December, 2016 and circular dated 19th September, 2014, a wholly-owned subsidiary of the Company ("Argent") has agreed to dispose of its interest in Argent Urban Renewal Project (the "Disposal") for a consideration of RMB1,579,700,000 (equivalent to approximately HK$1,767,052,000) subject to the fulfillment of the condition precedent as set out in the relocation agreement.

During the year ended 31st December, 2016, all parties to the Agreements have fulfilled their respective remaining responsibilities under the Agreements. Accordingly, the Disposal is considered complete and a net gain on the Disposal amounting to HK$1,218,783,000 was recognised.

The following is an analysis of the net gain on the Disposal recognised during the year ended 31st December, 2016:

	HK$'000
Consideration received	
– during the year ended 31st December, 2014	645,432
– during the year ended 31st December, 2016	1,121,620
	1,767,052
Less: Tax liabilities arising from the Disposal	(381,666)
Balance payment of service fee under the service agreement with Shenzhen Quanlianhang Property Consulting Co., Ltd.	(41,295)
Carrying values of buildings and leasehold improvements	(117,141)
Carrying values of prepaid lease payments	(8,109)
Professional fee	(58)
	1,218,783

In addition to the above, expenses relating to the Disposal amounting to HK$112,527,000 and HK$15,815,000 were incurred and recognised in profit or loss during the years ended 31st December, 2014 and 2015, respectively.

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interests on bank borrowings	**4,891**	1,641

7. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**2,041**	1,250
– Overprovision in respect of prior year	**(20)**	(40)
	2,021	1,210
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**268**	187
– Underprovision in respect of prior year	**2**	4
	270	191
United Kingdom Corporation Tax		
– Current year	**1,762**	2,621
France Corporation Tax		
– Current year	**673**	432
Deferred taxation		
– Current year	**(1,114)**	2,842
	3,612	7,296

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 of the PRC subsidiaries is 25% for both years.

United Kingdom Corporation Tax is calculated at the applicable rate of 20% in accordance with the relevant law and regulations in the United Kingdom for both years.

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for both years.

8. PROFIT (LOSS) FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging:		
Amortisation of intangible assets	**1,920**	2,039
Auditor's remuneration		
– audit service	**1,830**	1,830
– non-audit services	**535**	525
Allowance for doubtful debts, net	**3,003**	6,799
Cost of inventories recognised as an expense (included allowance for inventories of HK$1,099,000 (2015: write back of inventories of HK$3,234,000)) *(Note a)*	**1,095,052**	1,131,379
Depreciation of the property, plant and equipment	**147,979**	125,482
Operating lease rentals in respect of rented premises	**3,074**	3,676
Release of prepaid lease payments	**1,648**	1,622
Staff costs:		
Directors' emoluments	**3,792**	3,712
Other staff		
– Salaries and other allowances	**566,234**	613,392
– Contributions to retirement benefit schemes	**40,261**	30,925
– Economic compensation *(Note b)*	**285,212**	–
Total staff costs	**895,499**	648,029
and after crediting:		
Gross rental income from investment properties	**2,968**	3,630
Less: direct expenses of investment properties that generated rental income during the year	**(690)**	(734)
	2,278	2,896

Notes:

(a) During the year ended 31st December, 2016, an allowance for inventories of HK$1,099,000 (2015: write back of inventories of HK$3,234,000) has been recognised and included in cost of sales. The write back of inventories of 2015 related to an allowance no longer required on the subsequent sales of certain inventories which indicated that the circumstance that previously caused inventories to be impaired no longer existed.

(b) During the year ended 31st December, 2016, net economic compensation expense of HK$285,212,000 for past service of the employees of the Group was charged to profit or loss as part of administrative expenses.

9. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
First special dividend paid of 3.8 HK cents in respect of 2016 (2015: 3.8 HK cents in respect of 2015) per share	**14,579**	14,579
Second special dividend paid of 3.8 HK cents in respect of 2015 (2015: 3.8 HK cents in respect of 2014) per share	**14,579**	14,579
	29,158	29,158

The directors of the company (the "Directors") do not recommend the payment of a final dividend (2015: nil). A second special dividend of 25.0 HK cents in respect of 2016 (2015: 3.8 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS (LOSS) PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Earnings (loss) for the purpose of basic earnings (loss) per share – Profit (loss) for the year attributable to owners of the Company	**835,754**	(48,873)

	Number of shares	
Number of shares for the purpose of basic earnings (loss) per share	**383,650,000**	383,650,000

No diluted earnings (loss) per share has been presented as there was no potential ordinary shares in issue during 2016 and 2015.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Trade debtors	**391,634**	369,444
Less: Allowance for doubtful debts	**(43,547)**	(40,532)
	348,087	328,912
Bills receivable	**1,242**	185
Withholding tax paid relating to the Disposal *(note 5)*	**–**	68,098
Other debtors, deposits and prepayments	**8,120**	8,558
Total debtors, deposits and prepayments	**357,449**	405,753

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 which approximated the respective revenue recognition dates:

	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**262,459**	248,627
91 – 180 days	**84,150**	75,133
More than 180 days	**1,478**	5,152
	348,087	328,912

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

	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**1,242**	185

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

12. CREDITORS, DEPOSIT RECEIVED AND ACCRUED CHARGES

	2016	2015
	HK$'000	*HK$'000*
Trade creditors	**106,587**	110,920
Deposit received relating to the Disposal *(Note)*	**–**	680,976
Other creditors and accrued charges	**318,366**	127,228
	424,953	919,124

Note: The amount represented the first instalment of proceeds relating to the Disposal of RMB577,000,000 received in October 2014. The Disposal was completed during the year ended 31st December, 2016. Details of the Disposal are disclosed in note 5.

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

	2016	2015
	HK$'000	*HK$'000*
0 – 60 days	**88,999**	89,044
61 – 120 days	**16,007**	19,209
More than 120 days	**1,581**	2,667
	106,587	110,920

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

13. BANK BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Bank borrowings:		
– Secured	**171,797**	45,959
– Unsecured	**47,060**	22,734
	218,857	68,693
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	**102,162**	27,732
– more than one year, but not exceeding two years	**86,071**	5,124
– more than two years, but not exceeding five years	**16,564**	16,161
– more than five years	**14,060**	19,676
	218,857	68,693
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(218,857)**	(68,693)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. Bank borrowings of HK$30,880,000 (2015: HK$34,646,000) and HK$60,000,000 (2015: nil) are secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$142,797,000 (2015: HK$142,219,000) and carry interests at Hong Kong Prime Rate less 2.6% and one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% respectively.

A bank borrowing of HK$10,084,000 (2015: HK$11,313,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$32,730,000 (2015: HK$33,875,000) and carries interest at one-month HIBOR plus 1.8%.

A bank borrowing of HK$70,833,000 (2015: nil) is secured by the Group's leasehold land and buildings with carrying amount of HK$37,232,000 (including leasehold land and building with carrying amount of HK$32,730,000 as mentioned-above) and carries interest at one-month HIBOR plus 2.9%.

Unsecured bank borrowings of HK$47,060,000 (2015: HK$22,734,000) carry interests at HIBOR plus certain basis points.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2015: nil), but has resolved to recommend a second special dividend of 25.0 HK cents (2015: 3.8 HK cents) per share for the year ended 31st December, 2016. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 25th May, 2017 (the "AGM"), the second special dividend will be payable on or about 15th June, 2017 to shareholders whose names appear on the register of members of the Company on 2nd June, 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the second special 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	4:30 pm on 19th May, 2017
Closure of register of members	22nd May, 2017 to 25th May, 2017 (both dates inclusive)
Record date	25th May, 2017

(ii) For determining entitlement to the second special dividend:

Latest time to lodge transfer documents for registration	4:30 pm on 31st May, 2017
Closure of register of members	1st June, 2017 to 2nd June, 2017 (both dates inclusive)
Record date	2nd June, 2017

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 second special 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest times.

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 in mid-April 2017.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 9% to HK$1,255.1 million in 2016 (2015: HK$1,382.4 million). As a result of the completion of the disposal of the Group's interest in the Argent Urban Renewal Project (the "Disposal") as disclosed in the Company's announcements dated 19th August, 2014, 8th October, 2014, 13th October, 2015, 3rd May, 2016, 30th December, 2016 and circular dated 19th September, 2014, the Group reported a profit attributable to owners of the Company and earnings per share of HK$835.8 million and HK$2.18 respectively (2015: loss attributable to owners of the Company and loss per share of HK$48.9 million and HK$0.13 respectively).

The Group entered into the relocation agreement for the Disposal in 2014 and took two years to complete the Disposal and factory relocation. The net gain on the Disposal recognised in 2016 was HK$1,218.8 million, being the consideration for the Disposal of HK$1,767.1 million, less the net book value of the Argent Land and the properties erected thereon of HK$125.3 million, the second payment of the service fee under the service agreement with Shenzhen Quanlianhang Property Consulting Co., Ltd. of HK$41.3 million and taxes paid/payable of HK$381.7 million. If the net economic compensation for past service paid to employees of the Group of HK$285.2 million ("Economic Compensation") recognised as an administrative expense in 2016 and the cost and expenses related to the Disposal of HK$128.3 million incurred in 2014 and 2015 were deducted, the final amount for the total net income after the Disposal and factory relocation was HK$805.3 million.

On the other hand, the Group's core business was still under pressure in 2016. This was mainly attributable to:

(i) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 9% in 2016 as compared with 2015;

(ii) the continuous increase in labour costs and other operating costs in Mainland China in 2016; and

(iii) higher depreciation charges of the new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City.

Original design manufacturing (ODM) division

Our ODM division was the key revenue contributor and revenue generated by this division contributed to 82% of the consolidated revenue of the Group in 2016 (2015: 84%). Sales to ODM customers decreased by 12% from HK$1,167.0 million in 2015 to HK$1,027.0 million in 2016. Geographically, sales to customers in Europe, the United States (the "US") and Asia accounted for 62%, 31% and 7% respectively of the revenue of the ODM division in 2016 (2015: 63%, 28% and 9% respectively). Sales performance in the European market was adversely affected by the depreciation of the Euro against the US dollar and the impact on market confidence after the referendum vote of Brexit in June 2016. Concerns over possible interest rate hikes and the presidential election had also affected the consumers' demand for the Group's products in the US. In Asia, the purchasing power of customers was affected by the depreciation of local currencies against the US dollar during the year under review. Sales to Europe, the US and Asia dropped by 14%, 2% and 26% respectively in 2016. On the product side, the Group maintained a fairly balanced sales mix between prescription frames and sunglasses in 2016. Sales of prescription frames, sunglasses and spare parts accounted for 53%, 45% and 2% respectively of revenue of the ODM division in both 2016 and 2015.

Distribution and retailing divisions

Our distribution division continued to benefit from the consumers' preference for value frames in the face of economic challenges. Revenue generated by the distribution division increased moderately by 6% from HK$212.9 million in 2015 to HK$226.1 million in 2016 and accounted for 18% of the consolidated revenue of the Group in 2016 (2015: 15%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom and France and independent distributors in other countries. Europe was still the biggest market but its relative proportion of sales decreased due to higher growth rates recorded for sales to other geographical markets. Sales to Europe, Asia, the US and other regions accounted for 59%, 19%, 11% and 11% respectively of the revenue of the distribution division in 2016 (2015: 63%, 19%, 5% and 13% respectively). Sales to Europe were flat whereas sales to Asia and the US were up by 8% and 121% respectively. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division whereas sales of other house brands and licensed brands were catching up fast.

Revenue of the retailing division decreased from HK$2.5 million in 2015 to HK$2.0 million in 2016 and continued to contribute less than 1% to the consolidated revenue of the Group.

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK$321.0 million (2015: net cash inflow of HK$135.1 million) due to the payment of the one-time Economic Compensation of HK$285.2 million during the factory relocation and the decline of profitability of the core business of the Group during 2016. The second, third and fourth instalments of the Disposal net of withholding tax paid with an aggregate amount of HK$1,064.4 million ("Net Remaining Instalments") were received during the year. Substantial capital expenditure of HK$403.9 million for the factory relocation was made in 2016 after HK$420.9 million and HK$230.3 million were spent in 2015 and 2014 respectively. The Group also arranged two term loans with banks with a total amount of HK$160.0 million to finance the payment of Economic Compensation before the receipt of the Net Remaining Instalments. 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) increased from HK$149.2 million as at 31st December, 2015 to HK$410.2 million as at 31st December, 2016.

Working capital management

As the Chinese New Year holidays in 2017 were much closer to the year end date of 2016, delivery of goods was at a comparatively higher level in the last month of 2016 as compared to that of 2015, resulting in a 6% increase in the total amounts of trade debtors and bills receivable amounting to HK$349.3 million as at 31st December, 2016 (31st December, 2015: HK$329.1 million). Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased correspondingly from 87 days in 2015 to 102 days in 2016. In line with the decline in revenue by 9% in 2016, inventory balances decreased by 15% from 191.8 million as at 31st December, 2015 to HK$162.9 million as at 31st December, 2016. Inventory turnover period (being the ratio of inventory balances to cost of sales) also decreased from 62 days in 2015 to 54 days in 2016 following the Group's strenuous efforts made in reducing the production lead time. As a result of receipt of the Net Remaining Instalments during the year and recognition of the first instalment payment of HK$681.0 million (previously recorded as current liabilities as at 31st December, 2015) as income upon completion of the Disposal, the Group had a strong net current assets position of HK$508.4 million as at 31st December, 2016 (31st December, 2015: net current liabilities of HK$167.8 million). Accordingly, the current ratio (being the ratio of total current assets to total current liabilities) of the Group also increased from 0.8 to 1.0 as at 31st December, 2015 to 1.8 to 1.0 as at 31st December, 2016.

Gearing position

The Group maintained a low gearing position throughout 2016. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2016 and 31st December, 2015. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$11.0 million as at 31st December, 2016 (31st December, 2015: HK$12.1 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2016 and 31st December, 2015. As a result of the recognition of net gain on the Disposal, both the equity attributable to owners of the Company and net asset per share increased from HK$1,061.9 million and HK$2.77 respectively as at 31st December, 2015 to HK$1,820.1 million and HK$4.74 respectively as at 31st December, 2016.

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between the US dollar and Hong Kong dollar were relatively stable during the year under review.

PROSPECTS

Market outlook

The macro environment that the Group is facing has been one of the toughest we have ever seen. Factors affecting our ODM division in 2016 will continue to cast uncertainty in the market and affect consumer confidence in 2017. We keep working closely with our key customers to streamline their supply chains model and create value to their businesses. Our strategic partnership with the 50% owned associate in Italy, Trenti Industria Occhiali S.r.l. ("Trenti"), provides "Made in Italy" solutions to our customers and helps us to move up the value chain. The Group maintains an order book of around three months' sales orders on hand.

The encouraging performance of our distribution division in 2016 was the result of the Group's determination in turning this higher margin business into our future growth engine. The Group acquired the business and certain assets of the distributor of STEPPER eyewear in South Africa in January 2017. Direct distribution of the Group's STEPPER eyewear is conducted by the Group's subsidiaries in the United Kingdom, France and South Africa and by independent distributors in other countries. The Group is actively pursuing investment opportunities to further strengthen and expand its brands portfolio and distribution network.

Margin pressure

Increase in labour and other operating costs in Mainland China will continue to put pressure on the margins of the Group. The new production facility in Pingdi Town of Shenzhen City is well-equipped with modern technology and the management is implementing various projects to improve its operational efficiency. The Group will continue its strategies of diversification into higher margin business such as our distribution business and cooperation with Trenti. However, the management believes that the above measures can only alleviate part of the cost pressure.

Financial discipline

The Group enters into a new chapter after the completion of its factory relocation in 2016. Despite substantial capital investments made in the last three years, the Group still maintains a strong and liquid financial position and continues to invest in our core businesses while adhering to our prudent financial discipline.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2016, the Group employed approximately 7,500 (31st December, 2015: 8,300) full time staff in Mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31st December, 2016, except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in the future as it believes that this 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 as at 31st December, 2016, and the consolidated statement of profit or loss and other 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.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements for the year ended 31st December, 2016 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, 2016.

PUBLICATION OF ANNUAL REPORT

The 2016 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 in mid-April 2017.

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, 2017