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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1120)

FINAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER, 2013

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, 2013 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2013	2012
Revenue	HK\$1,462,983,000	HK\$1,475,482,000
Profit attributable to the owners of the Company	HK\$47,651,000	HK\$48,854,000
Earnings per share	12.4 HK cents	12.7 HK cents
Final dividend per share	2.5 HK cents	2.5 HK cents

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2013

		2013	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	1,462,983	1,475,482
Cost of sales		(1,191,604)	(1,202,087)
Gross profit		271,379	273,395
Other income	3	18,889	23,788
Other gains and losses	4	3,687	2,403
Gain on disposal of subsidiaries	5	19,814	–
Distribution and selling expenses		(22,511)	(28,707)
Administrative expenses		(229,998)	(213,170)
Other expenses		(867)	(1,142)
Finance costs	6	(1,293)	(1,070)
Share of (loss) profit of a joint venture		(78)	171
Profit before tax		59,022	55,668
Income tax expense	7	(10,108)	(5,316)
Profit for the year	8	48,914	50,352
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		20,639	3,943
Release of exchange reserve upon disposal of subsidiaries		(7,282)	–
		13,357	3,943
Total comprehensive income for the year		62,271	54,295
Profit for the year attributable to:			
Owners of the Company		47,651	48,854
Non-controlling interests		1,263	1,498
		48,914	50,352
Total comprehensive income attributable to:			
Owners of the Company		61,029	52,808
Non-controlling interests		1,242	1,487
		62,271	54,295
Earnings per share	10		
– Basic		12.4 HK cents	12.7 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2013

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Non-current Assets			
Property, plant and equipment		745,286	762,197
Prepaid lease payments		57,601	65,423
Deposits paid for acquisition of property, plant and equipment		359	537
Intangible assets		4,680	4,680
Interest in a joint venture		4,825	4,797
Loan receivable		13,067	3,388
Available-for-sale investment		5,858	5,858
Deferred tax assets		114	188
		831,790	847,068
Current Assets			
Inventories		208,148	196,537
Debtors, deposits and prepayments	11	422,589	413,475
Loan to a joint venture		739	–
Loan receivable		1,125	2,248
Prepaid lease payments		1,420	1,578
Tax recoverable		–	1,953
Short-term bank deposits		14,357	34,703
Bank balances and cash		197,010	143,082
		845,388	793,576
Current Liabilities			
Creditors and accrued charges	12	298,750	301,406
Bank borrowings		41,884	51,195
Tax liabilities		3,275	535
		343,909	353,136
Net Current Assets		501,479	440,440
Total Assets less Current Liabilities		1,333,269	1,287,508
Capital and Reserves			
Share capital		38,365	38,365
Reserves		1,278,019	1,234,947
Equity attributable to owners of the Company		1,316,384	1,273,312
Non-controlling interests		6,800	5,829
Total Equity		1,323,184	1,279,141
Non-current Liabilities			
Deferred tax liabilities		10,085	8,367
		1,333,269	1,287,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2013

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, 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.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated Financial Statements”, HKFRS 11 “Joint Arrangements”, HKFRS 12 “Disclosure of Interests in Other Entities”, HKAS 27 (as revised in 2011) “Separate Financial Statements” and HKAS 28 (as revised in 2011) “Investments in Associates and Joint Ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

HKFRS 10 “Consolidated Financial Statements”

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC) – Int 12 “Consolidation – Special Purpose Entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when: (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company (the “Directors”) made an assessment as at the date of initial application of HKFRS 10 (i.e. 1st January, 2013) and concluded that the application of the standard has had no significant impact on the financial results or position of the Group for the current or prior period.

HKFRS 11 “Joint Arrangements”

HKFRS 11 replaces HKAS 31 “Interests in Joint Ventures”, and the guidance contained in a related interpretation, HK(SIC) – Int 13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed).

The Directors reviewed and assessed the classification of the Group’s investment in a joint arrangement in accordance with the requirements of HKFRS 11. The Directors concluded that the Group’s interest in a jointly controlled entity, which was classified under HKAS 31 and was accounted for using equity method, should be classified as a joint venture under HKFRS 11 and continues to be accounted for using the equity method.

Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”

The Group has applied the amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”. Upon the adoption of the amendments to HKAS 1, the Group’s “statement of comprehensive income” is renamed as the “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. Furthermore, 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 do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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, 2013

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<i>Revenue</i>					
External sales	<u>944,079</u>	<u>368,247</u>	<u>111,359</u>	<u>39,298</u>	<u>1,462,983</u>
<i>Result</i>					
Segment profit	<u>63,292</u>	<u>23,891</u>	<u>9,542</u>	<u>2,245</u>	<u>98,970</u>
Unallocated income					20,519
Unallocated corporate expenses					(59,660)
Interest income on bank deposits					564
Finance costs					(1,293)
Share of loss of a joint venture					(78)
Profit before tax					<u>59,022</u>

For the year ended 31st December, 2012

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<i>Revenue</i>					
External sales	<u>971,735</u>	<u>363,804</u>	<u>95,153</u>	<u>44,790</u>	<u>1,475,482</u>
<i>Result</i>					
Segment profit	<u>64,772</u>	<u>22,518</u>	<u>12,040</u>	<u>2,845</u>	<u>102,175</u>
Unallocated income					2,380
Unallocated corporate expenses					(49,335)
Interest income on bank deposits					1,347
Finance costs					(1,070)
Share of profit of a joint venture					171
Profit before tax					<u>55,668</u>

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, finance costs, share of profit or loss of a joint venture and gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

	2013 HK\$'000	2012 HK\$'000
Included in other income are:		
Sales of scrap materials	6,670	7,606
Compensation from customers	9,160	11,569
Interest income on bank deposits	564	1,347
Dividend income from available-for-sale investment	689	1,030
Royalty income on intangible assets	–	465
	<u> </u>	<u> </u>

4. OTHER GAINS AND LOSSES

	2013 HK\$'000	2012 HK\$'000
Net foreign exchange gains	3,707	1,052
Net (loss) gain on disposal of property, plant and equipment	(20)	1,351
	<u> </u>	<u> </u>
	<u>3,687</u>	<u>2,403</u>

5. GAIN ON DISPOSAL OF SUBSIDIARIES

On 21st August, 2013, Arts Optical (Heyuan) Company Limited ("Arts Heyuan"), a subsidiary of the Company, entered into two equity transfer agreements (the "Equity Transfer Agreements") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreements, Arts Heyuan agreed to sell and the Purchaser agreed to purchase the entire equity interests in 滙聯眼鏡製造廠(河源)有限公司 (Huilian Optical Manufactory (Heyuan) Limited) ("Huilian") and 滙龍眼鏡五金配件(河源)有限公司 (Huילong Optical Manufactory (Heyuan) Limited) ("Huילong"), both were subsidiaries of the Company, at an aggregate consideration of HK\$22,000,000. The consideration was determined after arm's length negotiations between Arts Heyuan and the Purchaser and the transactions were completed on 6th December, 2013.

Huilian and Huילong are principally engaged in investment holding. The principal assets owned by Huilian and Huילong are two parcels of land located at Planning Area No. 1 of Guzhu Town Development Zone, Zijin County, Heyuan City, Guangdong Province, The People's Republic of China (the "PRC") with a total site area of 308,887.10 square metres.

	Huilian HK\$'000	Huilong HK\$'000	Total HK\$'000
Consideration received	6,600	15,400	22,000
Net assets disposed of	(2,524)	(6,104)	(8,628)
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on disposal of subsidiaries	3,322	3,960	7,282
Outgoing expenses	(294)	(546)	(840)
Gain on disposal	7,104	12,710	19,814

6. FINANCE COSTS

	2013 HK\$'000	2012 HK\$'000
Interest on bank borrowings wholly repayable within five years	133	246
Interest on bank borrowings wholly repayable after five years	1,160	824
	1,293	1,070

7. INCOME TAX EXPENSE

	2013 HK\$'000	2012 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	7,758	5,801
– Overprovision in respect of prior year	(75)	(55)
	7,683	5,746
PRC Enterprise Income Tax		
– Current year	633	92
– Underprovision in respect of prior year	–	27
	633	119
Deferred taxation		
– Current year	1,794	(549)
– Overprovision in respect of prior year	(2)	–
	1,792	(549)
	10,108	5,316

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

PRC Enterprise Income Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in the PRC.

8. PROFIT FOR THE YEAR

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Auditor's remuneration	1,580	1,580
Allowance for doubtful debts, net	2,022	7,659
Cost of inventories recognised as an expense (included allowance for inventories of HK\$1,236,000 (2012: HK\$5,284,000))	1,191,604	1,202,087
Depreciation of property, plant and equipment	100,817	95,958
Operating lease rentals in respect of rented premises	4,114	4,526
Release of prepaid lease payments	1,438	1,489
Staff costs:		
Directors' emoluments	3,713	3,706
Other staff		
– Salaries and other allowances	547,548	534,865
– Contributions to retirement benefit schemes	22,110	19,768
Total staff costs	<u>573,371</u>	<u>558,339</u>

9. DIVIDENDS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Dividend recognised as distribution during the year:		
Final dividend paid of 2.5 HK cents in respect of 2012 (2012: 6.5 HK cents in respect of 2011) per share	9,591	24,937
Interim dividend paid of 2.5 HK cents in respect of 2013 (2012: 4.0 HK cents in respect of 2012) per share	9,591	15,346
	<u>19,182</u>	<u>40,283</u>

A final dividend of 2.5 HK cents in respect of 2013 (2012: 2.5 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. 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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share		
– Profit for the year attributable to owners of the Company	<u>47,651</u>	<u>48,854</u>
	<i>Number of shares</i>	
Number of shares for the purpose of basic earnings per share	<u>383,650,000</u>	<u>383,650,000</u>

No diluted earnings per share have been presented as there were no potential ordinary shares in issue during 2013 and 2012.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade debtors	439,921	433,120
Less: Allowance for doubtful debts	<u>(29,283)</u>	<u>(30,227)</u>
	410,638	402,893
Bills receivable	2,643	3,455
Other debtors, deposits and prepayments	<u>9,308</u>	<u>7,127</u>
Total debtors, deposits and prepayments	<u>422,589</u>	<u>413,475</u>

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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 90 days	303,564	311,185
91 – 180 days	106,504	91,107
More than 180 days	<u>570</u>	<u>601</u>
	<u>410,638</u>	<u>402,893</u>

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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 90 days	2,415	2,691
91 – 180 days	228	764
	2,643	3,455

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

12. CREDITORS AND ACCRUED CHARGES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade creditors	154,984	149,608
Other creditors and accrued charges	143,766	151,798
	298,750	301,406

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 60 days	107,609	101,166
61 – 120 days	44,109	44,357
More than 120 days	3,266	4,085
	154,984	149,608

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

13. EVENT AFTER THE REPORTING PERIOD

On 12th March, 2014, Sin Dak Industrial Limited (“Sin Dak”), a subsidiary of the Company, entered into a provisional sale and purchase agreement (the “Agreement”) with an independent third party (the “Seller”). Pursuant to the Agreement, Sin Dak agreed to acquire and the Seller agreed to sell Unit 301, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the “Property”) at the purchase price of HK\$32,787,300 (the “Purchase Price”). The Purchase Price has been determined by the parties at arm’s length negotiations with reference to the prevailing market prices of comparable properties located in the same area. The Purchase Price will be funded out of the Company’s internal resources and/or by bank borrowings. Completion of the transaction shall take place on 30th June, 2014. The Property is currently rented by the Group as its headquarter. The Group intends to continue its existing use after completion of the Agreement.

DIVIDENDS

The Board has resolved to recommend a final dividend of 2.5 HK cents per share for the year ended 31st December, 2013 (2012: 2.5 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, 2014 (the “AGM”), the final dividend will be payable on or about 16th June, 2014 to shareholders whose names appear on the register of members of the Company on 30th May, 2014.

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	4:30 pm on 19th May, 2014
Closure of register of members	20th May, 2014 to 23rd May, 2014 (both dates inclusive)
Record date	23rd May, 2014

- (ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on 28th May, 2014
Closure of register of members	29th May, 2014 to 30th May, 2014 (both dates inclusive)
Record date	30th May, 2014

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 (which will be relocated to Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong with effective from 31st March, 2014) 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 in mid-April, 2014.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue remained fairly stable in 2013 and decreased by less than 1% to HK\$1,463.0 million (2012: HK\$1,475.5 million). Both profit attributable to owners of the Company and basic earnings per share decreased by 2% to HK\$47.7 million and 12.4 HK cents respectively in the year under review (2012: HK\$48.9 million and 12.7 HK cents).

Higher labour costs and continued appreciation of Renminbi continued to put pressure on the gross margin of the Group. The statutory minimum wages in Shenzhen City, Zhongshan City and Heyuan City, where the Group's manufacturing facilities were located, were raised by 6.7%, 19.1% and 18.8% respectively in 2013. The Renminbi also appreciated by almost 3% against both United States ("US") dollar and Hong Kong dollar throughout 2013. Despite this, the Group managed to keep its gross profit ratio (being the ratio of gross profit to revenue) stable at 18.5% in 2013 (2012: 18.5%) through improvement in operational efficiency, modest price adjustments and increase in sales of higher margin house brand and licensed brand products. Because of the increase in depreciation charge after the production plants in Heyuan City started operations in late 2012, total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) increased by 0.9% from 16.5% to 17.4%. The Group recorded a net after-tax gain of HK\$19.3 million on disposal of two wholly-owned subsidiaries holding two pieces of unutilised land in Heyuan City during the year. Accordingly, the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) remained flat at 3.3% in both 2013 and 2012. The net profit ratio of 2013 would have decreased to 1.9% if this gain was excluded.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed 90% to the consolidated revenue of the Group in both 2013 and 2012. Market sentiment in the two principal markets of the ODM division, namely Europe and the US remained soft in 2013. Sales to ODM customers decreased by 2% from HK\$1,331.1 million in 2012 to HK\$1,311.0 million in 2013. The geographical sales mix of the Group remained fairly stable in 2013. Sales to Europe, the US, Asia and other regions accounted for 66%, 28%, 5% and 1% respectively of the revenue of the ODM division in 2013 (2012: 67%, 27%, 4% and 2% respectively). The Group continued to maintain a balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 50%, 47% and 3% respectively of the revenue of this division in 2013 (2012: 48%, 50% and 2% respectively).

Distribution and retailing divisions

Revenue generated by sale of house brand and licensed brand products through the designated distributors of the distribution division accounted for 10% of the consolidated revenue of the Group in both 2013 and 2012. Revenue of the distribution division increased modestly by 6% from HK\$140.1 million in 2012 to HK\$148.5 million in 2013. Decline in sales to the European markets was offset by the increase in sales to the emerging markets in Asia and South America. Sales to Europe, Asia, North America and other regions accounted for 48%, 28%, 7% and 17% respectively of the revenue of the distribution division in 2013 (2012: 54%, 24%, 8% and 14% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division decreased from HK\$4.3 million in 2012 to HK\$3.5 million in 2013 as the Group only operated one shop in Shenzhen City in 2013 after the closure of two shops in 2012.

Financial position and liquidity

Cash Flows

The cash inflow generated by the Group's operating activities decreased from HK\$153.9 million in 2012 to HK\$113.4 million in 2013 as a result of decline in profitability and increase in working capital during the year under review. On the other hand, capital expenditure decreased significantly from HK\$206.5 million in 2012 to HK\$66.2 million in 2013 as the Group completed the acquisition of an office premise in Hong Kong with a total cost of HK\$99.0 million in 2012. Total amount of dividend payments was also reduced from HK\$40.9 million in 2012 to HK\$20.2 million in 2013 because of the decline in profitability of the Group. Accordingly 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\$126.6 million as at 31st December, 2012 to HK\$169.5 million as at 31st December, 2013.

Working capital management

As production activity is normally at the peak level before Chinese New Year and the Chinese New Year of 2014 was closer to the financial year end date of 2013, inventory balances increased by 6% from HK\$196.5 million as at 31st December, 2012 to HK\$208.1 million as at 31st December, 2013. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days in 2012 to 64 days in 2013. Total amount of debtors and bills receivable balances increased slightly by 2% from HK\$406.3 million as at 31st December, 2012 to HK\$413.3 million as at 31st December, 2013 and the debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased from 101 days in 2012 to 103 days in 2013. Despite this, the Group's financial position remained strong and liquid. The current ratio (being the ratio of total current assets to total current liabilities) of the Group increased from 2.2 to 1.0 as at 31st December, 2012 to 2.5 to 1.0 as at 31st December, 2013 as a result of the increase in net cash position of the Group.

Gearing position

The gearing position of the Group remained low throughout 2013. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at less than 1% as at both 31st December, 2013 and 31st December, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$10.1 million as at 31st December, 2013 (31st December, 2012: HK\$8.4 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2013 and 31st December, 2012 with an equity attributable to owners of the Company amounting to HK\$1,316.4 million and HK\$1,273.3 million as at 31st December, 2013 and 31st December, 2012 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, 2013 was HK\$3.43 (31st December, 2012: HK\$3.32).

Foreign currency exposure

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

PROSPECTS

The global economic environment remains volatile with low business visibility. Concerns over the effects of withdrawal of quantitative easing policy by the US Federal Reserve, the extreme weather conditions in Northern Hemisphere in the past few months and the recent geo-political tensions in Europe affect the procurement confidence of customers. On the other hand, customers are placing more emphasis on the reliability of the supply chain and are consolidating the vendor portfolio into a smaller number of larger key vendors. The Group benefits from this trend and its core ODM division currently maintains a stable order book of around three months' sales order on hand.

On the costs side, there are no signs of abatement in the upward trend of labour costs in China. The statutory minimum wage of Shenzhen City has been raised by 13% since February, 2014 and it is anticipated that other cities where the Group's manufacturing facilities are located will also raise their respective statutory minimum wages in the near future. Although the pace of appreciation of Renminbi is slowing down in the first quarter of 2014, the market consensus is that the currency will gradually appreciate in the long term. The Group continues to tackle these challenges by enhancing the flexibility in our production scale, streamlining our operations and modest price adjustments.

Revenue contributed by the distribution division has increased by 41% and 393% over the past five years and ten years respectively. The Group will continue to leverage on its extensive global distributor network developed over the past ten years, further invest in acquiring or developing new brands and expand the distributor network.

The factory relocation plan from Long Gang Area, Shenzhen City to Pingdi Town, Shenzhen City and Heyuan City are being executed in phases. The Group has submitted its redevelopment plan of the piece of land occupied by its existing factory in Long Gang Area with a site area of approximately 60,000 square metres to the relevant bureau of the Shenzhen municipal government for its approval and is evaluating various options of realizing the full potential value of this piece of land.

The Group remains alert to further difficulties and challenges that may arise in the global operating environment and will address the various challenges in coming years with financial discipline. The Group is steadfast in its strategy to invest in the future and position itself to seize opportunities that emerge in these challenging times.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2013, the Group employed approximately 9,800 (31st December, 2012: 10,200) 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, 2013, 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 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 as at 31st December, 2013, 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 ACCOUNTS

The Group's consolidated financial statements for the year ended 31st December, 2013 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, 2013.

PUBLICATION OF ANNUAL REPORT

The 2013 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, 2014.

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 of whom 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, 28th March, 2014