

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

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, 2014

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, 2014 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2014	2013
Revenue	HK\$1,593,255,000	HK\$1,462,983,000
(Loss) profit attributable to the owners of the Company	HK\$(100,927,000)	HK\$47,651,000
(Loss) earnings per share	(26.3) HK cents	12.4 HK cents
Final dividend per share	Nil	2.5 HK cents
Second special dividend per share	3.8 HK cents	Nil

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Revenue	2	1,593,255	1,462,983
Cost of sales		(1,306,802)	(1,191,604)
Gross profit		286,453	271,379
Other income	3	18,203	18,889
Other gains and losses	4	15,653	3,687
Gain on disposal of subsidiaries	5	–	19,814
Expenses relating to the disposal of land and premises	8	(112,527)	–
Distribution and selling expenses		(30,868)	(22,511)
Administrative expenses		(268,030)	(229,998)
Other expenses		(1,059)	(867)
Finance costs	6	(1,615)	(1,293)
Share of loss of an associate		(636)	–
Share of profit (loss) of a joint venture		304	(78)
(Loss) profit before tax		(94,122)	59,022
Income tax expense	7	(4,939)	(10,108)
(Loss) profit for the year	8	(99,061)	48,914
Other comprehensive (expense) income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(28,107)	20,639
Release of exchange reserve upon disposal of subsidiaries		–	(7,282)
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		37,261	–
		9,154	13,357
Total comprehensive (expense) income for the year		(89,907)	62,271
(Loss) profit for the year attributable to:			
Owners of the Company		(100,927)	47,651
Non-controlling interests		1,866	1,263
		(99,061)	48,914
Total comprehensive (expense) income attributable to:			
Owners of the Company		(91,211)	61,029
Non-controlling interests		1,304	1,242
		(89,907)	62,271
(Loss) earnings per share	10		
– Basic		(26.3) HK cents	12.4 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2014

	<i>Notes</i>	2014 HK\$'000	2013 HK\$'000
Non-current Assets			
Investment properties		130,250	–
Property, plant and equipment		751,766	745,286
Prepaid lease payments		61,224	57,601
Deposits paid for acquisition of property, plant and equipment		7,739	359
Intangible assets		19,088	4,680
Goodwill		9,432	–
Interest in an associate		23,297	–
Interest in a joint venture		5,103	4,825
Loan receivable		13,071	13,067
Available-for-sale investment		–	5,858
Deferred tax assets		934	114
		1,021,904	831,790
Current Assets			
Inventories		216,199	208,148
Debtors, deposits and prepayments	11	491,199	422,589
Loan to a joint venture		225	739
Loan receivable		562	1,125
Prepaid lease payments		1,483	1,420
Tax recoverable		3,656	–
Short-term bank deposits		436,625	14,357
Bank balances and cash		158,036	197,010
		1,307,985	845,388
Current Liabilities			
Creditors, deposit received and accrued charges	12	1,013,107	298,750
Bank borrowings		94,243	41,884
Tax liabilities		3,475	3,275
		1,110,825	343,909
Net Current Assets		197,160	501,479
Total Assets less Current Liabilities		1,219,064	1,333,269
Capital and Reserves			
Share capital		38,365	38,365
Reserves		1,162,180	1,278,019
Equity attributable to owners of the Company		1,200,545	1,316,384
Non-controlling interests		8,562	6,800
Total Equity		1,209,107	1,323,184
Non-current Liabilities			
Deferred tax liabilities		9,957	10,085
		1,219,064	1,333,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2014

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the amendments to HKFRSs and the new Interpretation 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 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, 2014

	Europe <i>HK\$’000</i>	United States <i>HK\$’000</i>	Asia <i>HK\$’000</i>	Other regions <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
<i>Revenue</i>					
External sales	<u>951,994</u>	<u>467,969</u>	<u>140,084</u>	<u>33,208</u>	<u>1,593,255</u>
<i>Result</i>					
Segment profit	<u>44,060</u>	<u>19,520</u>	<u>6,254</u>	<u>1,920</u>	71,754
Unallocated income					4,693
Unallocated corporate expenses					(57,138)
Expenses relating to the disposal of land and premises					(112,527)
Interest income on bank deposits					1,043
Finance costs					(1,615)
Share of loss of an associate					(636)
Share of profit of a joint venture					304
Loss before tax					<u>(94,122)</u>

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	944,079	368,247	111,359	39,298	1,462,983
<i>Result</i>					
Segment profit	63,292	23,891	9,542	2,245	98,970
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					59,022

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, property rental income, royalty income, increase in fair values of investment properties, finance costs, expenses relating to the disposal of land and premises, share of loss of an associate, share of profit or loss of a joint venture, loss on deemed disposal of an available-for-sale investment 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

	2014 HK\$'000	2013 HK\$'000
Included in other income are:		
Sales of scrap materials	6,478	6,670
Compensation from customers	7,022	9,160
Interest income on bank deposits	1,043	564
Dividend income from available-for-sale investment	550	689
Royalty income on intangible assets	233	—
Gross rental income from investment properties	1,502	—

4. OTHER GAINS AND LOSSES

	2014 HK\$'000	2013 HK\$'000
Net foreign exchange gains	13,753	3,707
Net loss on disposal of property, plant and equipment	(96)	(20)
Increase in fair values of investment properties	2,390	–
Loss on deemed disposal of an available-for-sale investment	(394)	–
	<u>15,653</u>	<u>3,687</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	Huילong 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)
	<u>7,104</u>	<u>12,710</u>	<u>19,814</u>
Gain on disposal	<u>7,104</u>	<u>12,710</u>	<u>19,814</u>

6. FINANCE COSTS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	418	133
Interest on bank borrowings wholly repayable after five years	1,197	1,160
	<u>1,615</u>	<u>1,293</u>

7. INCOME TAX EXPENSE

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– Current year	4,102	7,758
– Overprovision in respect of prior year	(30)	(75)
	<u>4,072</u>	<u>7,683</u>
PRC Enterprise Income Tax		
– Current year	293	633
– Underprovision in respect of prior year	29	–
	<u>322</u>	<u>633</u>
United Kingdom Corporation Tax		
– Current year	1,312	–
Deferred taxation		
– Current year	(767)	1,794
– Overprovision in respect of prior year	–	(2)
	<u>(767)</u>	<u>1,792</u>
	<u>4,939</u>	<u>10,108</u>

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.

United Kingdom Corporation Tax is calculated at the applicable rate of 21% in accordance with the relevant law and regulation in the United Kingdom.

8. (LOSS) PROFIT FOR THE YEAR

	2014 HK\$'000	2013 HK\$'000
(Loss) profit for the year has been arrived at after charging:		
Amortisation of intangible assets	972	–
Auditor's remuneration	1,870	1,580
Allowance for doubtful debts, net	4,939	2,022
Cost of inventories recognised as an expense (included write back for inventories of HK\$10,751,000 (2013: allowance for inventories of HK\$1,236,000))	1,306,802	1,191,604
Depreciation of the property, plant and equipment	102,687	100,817
Expenses relating to the disposal of land and premises (<i>Note</i>)	112,527	–
Operating lease rentals in respect of rented premises	3,676	4,114
Release of prepaid lease payments	1,407	1,438
Staff costs:		
Directors' emoluments	3,687	3,713
Other staff		
– Salaries and other allowances	659,222	547,548
– Contributions to retirement benefit schemes	26,042	22,110
Total staff costs	<u>688,951</u>	<u>573,371</u>

Note: The amount represents legal and professional fees as well as transaction costs incurred in relation to the disposal of the Group's interest in Argent Urban Renewal Project (the "Disposal"), details of which are disclosed in the Company's announcement and circular dated 19th August, 2014 and 19th September, 2014 respectively. The Disposal is expected to be completed in the first half of 2016.

9. DIVIDENDS

	2014 HK\$'000	2013 HK\$'000
Dividend recognised as distribution during the year:		
Final dividend paid of 2.5 HK cents in respect of 2013 (2013: 2.5 HK cents in respect of 2012) per share	9,591	9,591
Interim dividend paid of 0.7 HK cents in respect of 2014 (2013: 2.5 HK cents in respect of 2013) per share	2,686	9,591
First special dividend paid of 3.1 HK cents in respect of 2014 (2013: nil) per share	11,893	–
	<u>24,170</u>	<u>19,182</u>

The directors of the Company (the "Directors") do not recommend the payment of a final dividend (2013: 2.5 HK cents per share). A second special dividend of 3.8 HK cents in respect of 2014 per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. (LOSS) EARNINGS PER SHARE

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
(Loss) earnings for the purpose of basic (loss) earnings per share		
– (Loss) profit for the year attributable to owners of the Company	<u>(100,927)</u>	<u>47,651</u>
	<i>Number of shares</i>	
Number of shares for the purpose of basic (loss) earnings per share	<u>383,650,000</u>	<u>383,650,000</u>

No diluted (loss) earnings per share have been presented as there were no potential ordinary shares in issue during 2014 and 2013.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade debtors	438,169	439,921
Less: Allowance for doubtful debts	<u>(34,203)</u>	<u>(29,283)</u>
	403,966	410,638
Bills receivable	1,318	2,643
Withholding tax paid relating to the Disposal	71,981	–
Other debtors, deposits and prepayments	<u>13,934</u>	<u>9,308</u>
Total debtors, deposits and prepayments	<u>491,199</u>	<u>422,589</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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 90 days	321,114	303,564
91 – 180 days	80,012	106,504
More than 180 days	<u>2,840</u>	<u>570</u>
	<u>403,966</u>	<u>410,638</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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 90 days	1,191	2,415
91 – 180 days	127	228
	1,318	2,643

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade creditors	138,627	154,984
Deposit received relating to the Disposal (<i>Note</i>)	719,808	–
Other creditors and accrued charges	154,672	143,766
	1,013,107	298,750

Note: The amount represents the first instalment of proceeds relating to the Disposal (see note 8) of RMB577,000,000 received in October 2014.

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 60 days	110,826	107,609
61 – 120 days	24,068	44,109
More than 120 days	3,733	3,266
	138,627	154,984

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

13. EVENT AFTER THE REPORTING PERIOD

1. On 1st January, 2015, Stepper Eyewear Limited (“Stepper HK”), a non wholly-owned subsidiary of the Company, entered into four sale and purchase agreements with four members of the management team (“Stepper UK Team”) of Stepper UK Limited (“Stepper UK”), a non wholly-owned subsidiary of the Company, pursuant to which Stepper HK would sell and the Stepper UK Team would purchase a total of 25% of the issue share capital of Stepper UK for an aggregate consideration of £718,250 (the “Stepper UK Price”). The Stepper UK Price was determined by the parties at arm’s length negotiations with reference to the price paid by the Group for the acquisition of Stepper UK in July 2014 and the post-acquisition profits earned by Stepper UK. The purpose of the sale of the 25% interest in Stepper UK was to motivate the Stepper UK Team towards higher level of performance of Stepper UK. In the opinion of the Directors, this transaction would not have any significant impact on the consolidated results of the Group in 2015.
2. On 1st January, 2015, Stepper HK also entered into four sale and purchase agreements with four members of the management team (“Stepper France Team”) of Stepper France, a non wholly-owned subsidiary of the Company, pursuant to which (i) Stepper HK would sell and the Stepper France Team would purchase a total of 20% of the issue share capital of Stepper France for an aggregate consideration of €10,000 (the “Stepper France Share Price”); and (ii) Stepper HK would assign its interest in its loan to Stepper France with a face value of €240,000 to the Stepper France Team for an aggregate consideration of €240,000 (the “Stepper France Loan Price”). The Stepper France Share Price and the Stepper France Loan Price were determined by the parties at arm’s length negotiations with reference to the nominal value of the share capital of Stepper France transferred and face value of the shareholder’s loan assigned respectively. The purpose of the sale of the 20% interest in Stepper France and assignment of shareholder’s loan was to motivate the Stepper France Team towards higher level of performance of Stepper France. In the opinion of the Directors, this transaction would not have any significant impact on the consolidated results of the Group in 2015.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2013: 2.5 HK cents per share) and has resolved to recommend a second special dividend of 3.8 HK cents per share for the year ended 31st December, 2014. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 20th May, 2015 (the “AGM”), the second special dividend will be payable on or about 15th June, 2015 to shareholders whose names appear on the register of members of the Company on 28th May, 2015.

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 14th May, 2015
Closure of register of members	15th May, 2015 to 20th May, 2015 (both dates inclusive)
Record date	20th May, 2015

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

Latest time to lodge transfer documents for registration	4:30 pm on 26th May, 2015
Closure of register of members	27th May, 2015 to 28th May, 2015 (both dates inclusive)
Record date	28th May, 2015

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 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 2015.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 9% to HK\$1,593.3 million (2013: HK\$1,463.0 million). Loss attributable to owners of the Company amounted to HK\$100.9 million (2013: profit of HK\$47.7 million). Loss per share was 26.3 HK cents in 2014 (2013: earnings per share of 12.4 HK cents).

The significant loss reported for the year of 2014 was mainly attributable to:

- (i) the significant increase in labour costs after the statutory minimum wage in Shenzhen City, where the Group's manufacturing facilities were located, increased by 13% as from February 2014 and the significant increase in other operating costs in mainland China throughout 2014;
- (ii) recognition of expenses relating to the disposal of the Group's interest in Argent Urban Renewal Project (the "Disposal") amounting to HK\$112.5 million in 2014, whereas the relevant income can only be recognized upon the completion of the Disposal which is expected to be in the first half of 2016; and
- (iii) recognition of a net after-tax gain of HK\$19.3 million by the Group in 2013 upon the disposal of two wholly-owned subsidiaries that held two pieces of unutilised land in Heyuan City, which raised the Group's profit in 2013 and caused the Group's profit for the year ended 31st December, 2014 to appear lower in comparison.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed to 89% of the consolidated revenue of the Group in 2014 (2013: 90%). The Group continued to gain market share as its ODM customers consolidated their vendor portfolio by concentrating their orders on more reliable suppliers. Sales to ODM customers increased by 8% from HK\$1,311.0 million in 2013 to HK\$1,417.4 million in 2014. Growth was satisfactory in both the United States (the "US") (up by 27%) and Asia (up by 38%) whereas sales to Europe remained flat as the general market sentiment remained soft in Europe in 2014. Sales to Europe, the US, Asia and other regions accounted for 61%, 32%, 6% and 1% respectively of the revenue of the ODM division in 2014 (2013: 66%, 28%, 5% and 1% 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 52%, 46% and 2% respectively of the revenue of this division in 2014 (2013: 50%, 47% and 3% respectively).

Distribution and retailing divisions

The Group's distribution division made two acquisitions in July 2014 :

- (i) acquisition of the entire issued share capital and the shareholder's loan of Stepper (UK) Limited, the distributor of "STEPPER" eyewear in the United Kingdom, for an aggregate consideration of HK\$36.3 million; and
- (ii) acquisition of the business and certain assets of the distributor of "STEPPER" eyewear in France by its French subsidiary ("Stepper France") for an aggregate consideration of HK\$9.2 million (collectively, the "Stepper Acquisitions").

Boosted by the business generated as a result of the Stepper Acquisitions, revenue generated by the distribution division increased by 17% from HK\$148.5 million in 2013 to HK\$173.5 million in 2014. Revenue of the distribution division accounted for 11% of the consolidated revenue of the Group in 2014 (2013: 10%). Double-digit growth in sales was recorded in Europe, Asia and North America in 2014. Sales to Europe, Asia, North America and other regions accounted for 53%, 27%, 7% and 13% respectively of the revenue of the distribution division in 2014 (2013: 48%, 28%, 7% and 17% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division decreased from HK\$3.5 million in 2013 to HK\$2.4 million in 2014 as the general eyewear retailing market in Shenzhen City remained weak in 2014.

Financial position and liquidity

Cash flows

The Group's operating activities generated a healthy cash inflow of HK\$103.4 million in 2014 (2013: HK\$113.4 million) despite a substantial decline in profitability of the core business of the Group. The receipt of the first instalment of proceeds of the Disposal in October 2014, HK\$647.8 million net of payment of withholding tax of HK\$72.0 million, had significantly increased the cash balance of the Group. Capital expenditure increased significantly from HK\$66.2 million in 2013 to HK\$230.3 million in 2014 as the Group had accelerated the pace of its factory relocation preparation since October 2014 and also acquired its office in Hong Kong in June 2014. Total amount of dividend payments increased from HK\$20.2 million in 2013 to HK\$24.2 million in 2014. 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\$169.5 million as at 31st December, 2013 to HK\$500.4 million as at 31st December, 2014.

Working capital management

Due to the Stepper Acquisitions, inventory balances increased by 4% from HK\$208.1 million as at 31st December, 2013 to HK\$216.2 million as at 31st December, 2014. Inventory turnover period (being the ratio of inventory balances to cost of sales) improved from 64 days in 2013 to 60 days in 2014 as a result of the Group's efforts in cutting down the production lead time. Total amount of debtors and bills receivable balances decreased slightly by 2% from HK\$413.3 million as at 31st December, 2013 to HK\$405.3 million as at 31st December, 2014 as some key customers postponed the delivery schedule of their orders from end of 2014 to early 2015. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) shortened correspondingly from 103 days in 2013 to 93 days in 2014. The receipt of the first instalment of proceeds of the Disposal had significantly increased the amount of both current assets and current liabilities. As a substantial portion of the cash received was subsequently spent on capital expenditure for the relocation of its factory, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.5 to 1.0 as at 31st December, 2013 to 1.2 to 1.0 as at 31st December, 2014.

Gearing position

The gearing position of the Group remained low throughout 2014. 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, 2014 and 31st December, 2013. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$10.0 million as at 31st December, 2014 (31st December, 2013: HK\$10.1 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2014 and 31st December, 2013 with equity attributable to owners of the Company amounting to HK\$1,200.5 million and HK\$1,316.4 million as at 31st December, 2014 and 31st December, 2013 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, 2014 was HK\$3.13 (31st December, 2013: HK\$3.43).

Foreign currency exposure

The Group was exposed to the fluctuation 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 the exchange rate movements between the US dollar and Hong Kong dollar were relatively stable during the year under review.

PROSPECTS

Factory relocation

The factory relocation project entered into a new phase after the Disposal was approved at the special general meeting of the Company held in October 2014. New buildings are being constructed in the factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City. Relevant capital expenditure is financed by the first instalment of proceeds of the Disposal. Relocation of production lines will be executed in phases, starting in around July 2015 and is expected to be completed in October 2015. The Group anticipates that there will be no material disruption to its manufacturing operations throughout the relocation exercise.

ODM division

The ODM business is closely correlated to the global business environment which remains uncertain in 2015. Concerns over depreciation of major currencies against the US dollar in recent months and possible interest rate hikes in the US in the second half of the 2015 continue to affect the procurement confidence of our ODM customers. The Group maintains an order book of around three months' sales order on hand. The Group is working closely with Trenti Industria Occhiali S.r.l., a 50% owned associate in Italy acquired in 2014, to capture the opportunities of providing "Made in Italy" solutions to the customers of both ODM and distribution divisions.

Distribution division

The Stepper Acquisitions have brought transformational changes to the business of our Distribution Division. The Group's house brand and licensed brand products are directly sold to retail shops in the United Kingdom, France, Belgium and Luxembourg, whereas they are distributed through the independent distributors in the rest of the world. The Group is also actively exploring opportunities to expand both its distribution network (by way of both direct distribution and alliances with strategic distribution partner(s)) and brands portfolio (by both acquisition and licensing of brands).

Margin pressure

The margin pressure that the Group has been experiencing in recent years will continue in 2015. The statutory minimum wage of Shenzhen City has been raised by 12% since March 2015. The statutory minimum wage of Heyuan City and Zhongshan City will also be raised by 20% and 15% respectively in May 2015. Price adjustments by the ODM division and the increase in sales of the higher margin business of distribution division can only offset part of the cost increase. Although the factory relocation represents a good opportunity for the Group to upgrade and modernize its production processes in its newly established factories and thereby improve its operational efficiency, the relevant economic benefits will not be realised in 2015 as the relocation is expected to be completed in October 2015.

Summary

2015 is a very critical year for the Group's development. The execution of the Group's factory relocation, the upgrading of its ODM business as well as expansion of its distribution business will lay down the cornerstone of the future development and success of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2014, the Group employed approximately 10,500 (31st December, 2013: 9,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes 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, 2014, 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, 2014, 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, 2014 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, 2014.

PUBLICATION OF ANNUAL REPORT

The 2014 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 2015.

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, 30th March, 2015