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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, 2015

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, 2015 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2015	2014
Revenue	HK\$1,382,427,000	HK\$1,593,255,000
Loss attributable to owners of the Company	HK\$(48,873,000)	HK\$(100,927,000)
Loss per share	(12.74) HK cents	(26.31) HK cents
Final dividend per share	Nil	Nil
Second special dividend per share	3.8 HK cents	3.8 HK cents

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	2	1,382,427	1,593,255
Cost of sales		(1,131,379)	(1,306,802)
Gross profit		251,048	286,453
Other income	3	28,152	18,203
Other gains and losses	4	46,002	15,653
Expenses relating to the disposal of land and premises	7	(15,815)	(112,527)
Distribution and selling expenses		(36,178)	(30,868)
Administrative expenses		(307,653)	(268,030)
Other expenses		(824)	(1,059)
Finance costs	5	(1,641)	(1,615)
Share of profit (loss) of an associate		752	(636)
Share of profit of a joint venture		156	304
Loss before tax		(36,001)	(94,122)
Income tax expense	6	(7,296)	(4,939)
Loss for the year	7	(43,297)	(99,061)
Other comprehensive (expense) income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(63,769)	(28,107)
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		–	37,261
		(63,769)	9,154
Total comprehensive expense for the year		(107,066)	(89,907)
Loss for the year attributable to:			
Owners of the Company		(48,873)	(100,927)
Non-controlling interests		5,576	1,866
		(43,297)	(99,061)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(112,611)	(91,211)
Non-controlling interests		5,545	1,304
		(107,066)	(89,907)
Loss per share	9		
– Basic		(12.74) HK cents	(26.31) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2015

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Non-current Assets			
Investment properties		140,850	130,250
Property, plant and equipment		972,937	751,766
Prepaid lease payments		73,017	61,224
Deposits paid for acquisition of property, plant and equipment		14,179	7,739
Intangible assets		16,732	19,088
Goodwill		8,979	9,432
Interest in an associate		20,369	23,297
Interest in a joint venture		5,024	5,103
Loan receivable		1,260	13,071
Other receivables		5,479	–
Deferred tax assets		229	934
		1,259,055	1,021,904
Current Assets			
Inventories		191,805	216,199
Debtors, deposits and prepayments	10	405,753	491,199
Loan to a joint venture		–	225
Loan receivable		–	562
Other receivables		2,202	–
Prepaid lease payments		1,743	1,483
Tax recoverable		2,852	3,656
Short-term bank deposits		23,030	436,625
Bank balances and cash		194,870	158,036
		822,255	1,307,985
Current Liabilities			
Creditors, deposit received and accrued charges	11	919,124	1,013,107
Bank borrowings		68,693	94,243
Tax liabilities		2,247	3,475
		990,064	1,110,825
Net Current (Liabilities) Assets		(167,809)	197,160
Total Assets less Current Liabilities		1,091,246	1,219,064
Capital and Reserves			
Share capital		38,365	38,365
Reserves		1,023,545	1,162,180
Equity attributable to owners of the Company		1,061,910	1,200,545
Non-controlling interests		17,230	8,562
Total Equity		1,079,140	1,209,107
Non-current Liabilities			
Deferred tax liabilities		12,106	9,957
		1,091,246	1,219,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

1. APPLICATION OF NEW AND REVISED 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 Hong Kong Accounting Standard 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

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, 2015

	Europe HK\$’000	United States HK\$’000	Asia HK\$’000	Other regions HK\$’000	Consolidated HK\$’000
<i>Revenue</i>					
External sales	<u>870,830</u>	<u>334,852</u>	<u>145,797</u>	<u>30,948</u>	<u>1,382,427</u>
<i>Result</i>					
Segment profit (loss)	<u>20,201</u>	<u>(3,165)</u>	<u>(3,037)</u>	<u>2,618</u>	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					<u>(36,001)</u>

For the year ended 31st December, 2014

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<i>Revenue</i>					
External sales	951,994	467,969	140,084	33,208	1,593,255
<i>Result</i>					
Segment profit	44,060	19,520	6,254	1,920	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					(94,122)

Segment profit or loss represents the profit earned by or loss from 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 profit or loss of an associate, share of profit of a joint venture and loss on deemed disposal of an available-for-sale investment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Included in other income are:		
Sales of scrap materials	5,352	6,478
Compensation from customers	8,491	7,022
Interest income on bank deposits	8,467	1,043
Gross rental income from investment properties	3,630	1,502
Dividend income from available-for-sale investment	—	550
Royalty income on intangible assets	—	233

4. OTHER GAINS AND LOSSES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Net foreign exchange gains	47,350	13,753
Net gain (loss) on disposal of property, plant and equipment	415	(96)
Increase in fair value of investment properties	10,600	2,390
Loss on deemed disposal of an available-for-sale investment	–	(394)
Impairment loss of loan receivable	(12,363)	–
	<u>46,002</u>	<u>15,653</u>

5. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interests on bank borrowings	<u>1,641</u>	<u>1,615</u>

6. INCOME TAX EXPENSE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– Current year	1,250	4,102
– Overprovision in respect of prior year	(40)	(30)
	<u>1,210</u>	<u>4,072</u>
People's Republic of China ("PRC") Enterprise Income Tax		
– Current year	187	293
– Underprovision in respect of prior year	4	29
	<u>191</u>	<u>322</u>
United Kingdom Corporation Tax		
– Current year	<u>2,621</u>	<u>1,312</u>
France Corporation Tax		
– Current year	<u>432</u>	<u>–</u>
Deferred taxation		
– Current year	<u>2,842</u>	<u>(767)</u>
	<u>7,296</u>	<u>4,939</u>

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% (2014: 25%).

United Kingdom Corporation Tax is calculated at the applicable rate of 20% (2014: 21%) in accordance with the relevant law and regulations in the United Kingdom.

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.

7. LOSS FOR THE YEAR

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Amortisation of intangible assets	2,039	972
Auditor's remuneration		
– audit service	1,830	1,870
– non-audit services	525	1,070
Allowance for doubtful debts, net	6,799	4,939
Cost of inventories recognised as an expense (included write back of inventories of HK\$3,234,000 (2014: HK\$10,751,000)) (<i>Note a</i>)	1,131,379	1,306,802
Depreciation of the property, plant and equipment	125,482	102,687
Expenses relating to the disposal of land and premises (<i>Note b</i>)	15,815	112,527
Operating lease rentals in respect of rented premises	3,676	3,676
Release of prepaid lease payments	1,622	1,407
Staff costs:		
Directors' emoluments	3,712	3,687
Other staff		
– Salaries and other allowances	613,392	659,222
– Contributions to retirement benefit schemes	30,925	26,042
Total staff costs	<u>648,029</u>	<u>688,951</u>
and after crediting:		
Gross rental income from investment properties	3,630	1,502
Less: direct expenses of investment properties that generated rental income during the year	<u>(734)</u>	<u>(553)</u>
	<u>2,896</u>	<u>949</u>

Notes:

- a) During the year, a write back of inventories of HK\$3,234,000 (2014: HK\$10,751,000) has been recognised and included in cost of sales. The write back relates to a provision no longer required on the subsequent sales of certain inventories which indicated that the circumstance that previously caused inventories to be impaired no longer exist.
- b) 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, 19th September, 2014 and 13th October, 2015 respectively.

8. DIVIDENDS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Dividend recognised as distribution during the year:		
No final dividend paid in respect of 2014 (2014: 2.5 HK cents in respect of 2013) per share	–	9,591
No interim dividend paid in respect of 2015 (2014: 0.7 HK cent in respect of 2014) per share	–	2,686
First special dividend paid of 3.8 HK cents in respect of 2015 (2014: 3.1 HK cents in respect of 2014) per share	14,579	11,893
Second special dividend paid of 3.8 HK cents in respect of 2014 (2014: nil) per share	14,579	–
	29,158	24,170

The directors of the Company (the "Directors") do not recommend the payment of a final dividend (2014: nil). A second special dividend of 3.8 HK cents in respect of 2015 (2014: 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.

9. LOSS PER SHARE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss for the purpose of basic loss per share		
– Loss for the year attributable to owners of the Company	<u>(48,873)</u>	<u>(100,927)</u>
	<i>Number of shares</i>	
Number of shares for the purpose of basic loss per share	<u>383,650,000</u>	<u>383,650,000</u>

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2015 and 2014.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade debtors	369,444	438,169
Less: Allowance for doubtful debts	<u>(40,532)</u>	<u>(34,203)</u>
	328,912	403,966
Bills receivable	185	1,318
Withholding tax paid relating to the Disposal	68,098	71,981
Other debtors, deposits and prepayments	<u>8,558</u>	<u>13,934</u>
Total debtors, deposits and prepayments	<u>405,753</u>	<u>491,199</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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 – 90 days	248,627	321,114
91 – 180 days	75,133	80,012
More than 180 days	<u>5,152</u>	<u>2,840</u>
	<u>328,912</u>	<u>403,966</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:

	2015 HK\$'000	2014 HK\$'000
0 – 90 days	185	1,191
91 – 180 days	–	127
	185	1,318

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

11. CREDITORS, DEPOSIT RECEIVED AND ACCRUED CHARGES

	2015 HK\$'000	2014 HK\$'000
Trade creditors	110,920	138,627
Deposit received relating to the Disposal (<i>Note</i>)	680,976	719,808
Other creditors and accrued charges	127,228	154,672
	919,124	1,013,107

Note: The amount represents the first instalment of proceeds relating to the Disposal (see note 7) 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:

	2015 HK\$'000	2014 HK\$'000
0 – 60 days	89,044	110,826
61 – 120 days	19,209	24,068
More than 120 days	2,667	3,733
	110,920	138,627

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

DIVIDENDS

The Board does not recommend the payment of a final dividend (2014: nil), but has resolved to recommend a second special dividend of 3.8 HK cents (2014: 3.8 HK cents) per share for the year ended 31st December, 2015. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 25th May, 2016 (the “AGM”), the second special dividend will be payable on or about 15th June, 2016 to shareholders whose names appear on the register of members of the Company on 1st June, 2016.

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, 2016
Closure of register of members	20th May, 2016 to 25th May, 2016 (both dates inclusive)
Record date	25th May, 2016

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

Latest time to lodge transfer documents for registration	4:30 pm on 30th May, 2016
Closure of register of members	31st May, 2016 to 1st June, 2016 (both dates inclusive)
Record date	1st June, 2016

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 2016.

BUSINESS REVIEW

Profitability analysis

As reported in our 2015 Interim Report, the business environment was exceptionally challenging in 2015 amid the macroeconomic development of the Group's major exports markets and the cost pressure experienced in the Group's manufacturing base in Mainland China. The Group's consolidated revenue decreased by 13% to HK\$1,382.4 million (2014: HK\$1,593.3 million).

The loss reported for the year of 2015 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 13% in 2015 as compared with 2014;
- (ii) the significant increase in labour costs where the manufacturing facilities of the Group were located, namely Shenzhen City, Heyuan City and Zhongshan City, where the statutory minimum wage increased by 12%, 20% and 15% respectively, since March 2015 for Shenzhen City and since May 2015 for Heyuan City and Zhongshan City;
- (iii) the significant increase in other operating costs in Mainland China throughout 2015;
- (iv) additional costs and expenses incurred in 2015 as the Group accelerated the pace of its factory relocation project from October 2014 onwards with new buildings being constructed on its factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City, which resulted in higher depreciation charges of the buildings and leasehold improvement;
- (v) costs and expenses of HK\$15.8 million incurred relating to the disposal of land and premises situated at Longguan District, Shenzhen City (the "Argent Land") as announced by the Company on 19th August, 2014 (the "Disposal"); and
- (vi) an impairment charge of HK\$12.4 million on a loan granted to a corporate customer of the Group due to uncertainty of its collectability.

As the costs and expenses incurred relating to the Disposal decreased substantially from HK\$112.5 million in 2014 to HK\$15.8 million in 2015, this resulted in a significant reduction of loss attributable to owners of the Company to HK\$48.9 million (2014: HK\$100.9 million). Loss per share was down to 12.74 HK cents in 2015 (2014: 26.31 HK cents).

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed to 84% of the consolidated revenue of the Group in 2015 (2014: 89%). Procurement confidence of our ODM customers in the two major markets of the Group, namely Europe and the United States (the “US”), was adversely affected by the depreciation of the Euro against the US dollars and concerns over possible interest rate hikes in the US during the year under review. Sales to ODM customers decreased by 18% from HK\$1,417.4 million in 2014 to HK\$1,167.0 million in 2015. Sales to Europe and the US was down by 14% and 30% respectively whereas sales to Asia was up by 13%. Sales to Europe, the US, Asia and other regions accounted for 63%, 27%, 9% and 1% respectively of the revenue of the ODM division in 2015 (2014: 61%, 32%, 6% 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 53%, 45% and 2% respectively of the revenue of this division in 2015 (2014: 52%, 46% and 2% respectively).

Distribution and retailing divisions

2015 was the first full year of consolidation of the results of the wholesale businesses in the United Kingdom and France that were acquired by the Group in July 2014. The Group’s house brand and licensed brand products were sold to independent distributors in other countries. Revenue generated by the distribution division increased by 23% from HK\$173.5 million in 2014 to HK\$212.9 million in 2015 and accounted for 15% of the consolidated revenue of the Group in 2015 (2014: 11%). Sales to Europe and North America were up by 45% and 41% respectively whereas sales to Asia was down by 13%. Sales to Europe, Asia, North America and other regions accounted for 63%, 19%, 8% and 10% respectively of the revenue of the distribution division in 2015 (2014: 53%, 27%, 7% and 13% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division increased from HK\$2.4 million in 2014 to HK\$2.5 million in 2015.

Financial position and liquidity

Cash flows

The Group’s operating activities generated a healthy cash inflow of HK\$135.1 million in 2015 (2014: HK\$103.4 million) despite a substantial decline in profitability of the core business of the Group. Most of the proceeds of the first instalment of the Disposal received in October 2014 was spent on the factory relocation project. Capital expenditure increased significantly from HK\$230.3 million in 2014 to HK\$420.9 million in 2015. 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) therefore decreased from HK\$500.4 million as at 31st December, 2014 to HK\$149.2 million as at 31st December, 2015.

Working capital management

In line with the decline in revenue by 13% in 2015, inventory balances and total amounts of trade debtors and bills receivable balances decreased by 11% and 19% from HK\$216.2 million and HK\$405.3 million as at 31st December, 2014 to HK\$191.8 million and HK\$329.1 million as at 31st December, 2015 respectively. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased slightly from 60 days in 2014 to 62 days in 2015 due to the increase in proportion of business generated by the distribution business which normally required a higher level of inventory for servicing the customers. The Group continued to exercise strict control on granting of credit and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) shortened correspondingly from 93 days in 2014 to 87 days in 2015. Because of the substantial capital expenditure incurred by the Group 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 1.2 to 1.0 as at 31st December, 2014 to 0.8 to 1.0 as at 31st December, 2015.

Gearing position

The Group maintained a low gearing position throughout 2015. 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, 2015 and 31st December, 2014. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$12.1 million as at 31st December, 2015 (31st December, 2014: HK\$10.0 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2015 and 31st December, 2014 with equity attributable to owners of the Company amounting to HK\$1,061.9 million and HK\$1,200.5 million as at 31st December, 2015 and 31st December, 2014 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, 2015 was HK\$2.77 (31st December, 2014: HK\$3.13).

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

In order to ensure and facilitate a smooth and orderly factory relocation process, Argent Optical Manufactory Limited (“Argent”) (being an indirect wholly-owned subsidiary of the Company) and 深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) (“Kaisa Property”) as well as 佳兆業集團（深圳）有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) entered into a supplemental agreement on 13th October, 2015 pursuant to which Argent is required to deliver vacant possession of the Argent Land to Kaisa Property by 15th August, 2016. Construction of all main buildings and internal renovation in the factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City has been completed. Relocation of production lines will commence in the second quarter and be completed by mid-2016.

While the management expects that the macroeconomic environment will be challenging globally for our business in 2016, our order book remains solid and is in line with our expectations. The Group maintains an order book of around three months’ sales order on hand as our key and strategic customers continue to consolidate their vendor portfolio and concentrate their orders on more reliable suppliers. We are working closely with our customers to streamline their supply chains and add greater value to their businesses.

On the cost side, increase in labour and other operating costs in Mainland China will continue to put pressure on the margins of the Group. The Group remains vigilant in improving cost efficiency and productivity and believes that factory relocation represents a good opportunity to upgrade and modernize its production and operational processes.

Going forward, the management will continue to build on our strong financial position and invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network. Notwithstanding the current challenging environment, we see ample opportunities for continuous growth and will capture such opportunities while adhering to our prudent financial discipline.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2015, the Group employed approximately 8,300 (31st December, 2014: 10,500) full time staff in Mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes 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, 2015, 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, 2015, 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, 2015 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, 2015.

PUBLICATION OF ANNUAL REPORT

The 2015 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 2016.

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, 31st March, 2016