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, 2010

FINAL RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 2010 together with last year's comparative figures.

FINANCIAL HIGHLIGHTS

	2010	2009
Revenue	**HK$1,361,026,000**	HK$1,169,768,000
Profit attributable to the owners of the Company	**HK$124,729,000**	HK$122,336,000
Earnings per share	**32.5 HK cents**	31.9 HK cents
Final dividend per share	**7.0 HK cents**	7.0 HK cents

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Revenue	2	**1,361,026**	1,169,768
Cost of sales		**(1,032,533)**	(879,381)
Gross profit		**328,493**	290,387
Other income	3	**12,717**	23,574
Other gains and losses	4	**4,325**	1,107
Distribution and selling expenses		**(22,170)**	(23,770)
Administrative expenses		**(180,519)**	(157,069)
Other expenses		**(955)**	(930)
Finance costs	5	**(398)**	(831)
Profit before tax		**141,493**	132,468
Income tax expense	6	**(15,972)**	(9,793)
Profit for the year	7	**125,521**	122,675
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**27,936**	1,939
Total comprehensive income for the year		**153,457**	124,614
Profit for the year attributable to:			
Owners of the Company		**124,729**	122,336
Non-controlling interests		**792**	339
		125,521	122,675
Total comprehensive income attributable to:			
Owners of the Company		**152,628**	124,275
Non-controlling interests		**829**	339
		153,457	124,614
Earnings per share	9		
– Basic		**32.5 HK cents**	31.9 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	Notes	**31.12.2010**	31.12.2009	1.1.2009
		HK$'000	*HK$'000*	*HK$'000*
			(restated)	(restated)
Non-current Assets				
Investment property		**–**	–	7,300
Property, plant and equipment		**588,187**	528,890	574,401
Prepaid lease payments		**53,057**	28,848	29,548
Deposits paid for acquisition of property, plant and equipment		**3,348**	1,298	6,338
Intangible assets		**4,680**	4,680	4,680
Loan receivable		**7,900**	10,114	12,361
Available-for-sale investments		**5,858**	5,858	5,858
Deferred tax assets		**188**	181	–
		663,218	579,869	640,486
Current Assets				
Inventories		**197,181**	148,335	188,317
Debtors, deposits and prepayments	10	**378,788**	316,127	394,457
Loan receivable		**2,257**	2,248	2,248
Prepaid lease payments		**1,328**	744	744
Tax recoverable		**2,999**	54	188
Short-term bank deposits		**145,266**	118,906	–
Bank balances and cash		**120,184**	222,850	141,239
		848,003	809,264	727,193
Current Liabilities				
Creditors and accrued charges	11	**293,284**	260,579	264,300
Bank borrowings		**25,833**	35,833	84,657
Tax liabilities		**1,954**	4,841	725
		321,071	301,253	349,682
Net Current Assets		**526,932**	508,011	377,511
Total Assets less Current Liabilities		**1,190,150**	1,087,880	1,017,997
Capital and Reserves				
Share capital		**38,365**	38,365	38,365
Reserves		**1,133,929**	1,033,094	958,694
Equity attributable to owners of the Company		**1,172,294**	1,071,459	997,059
Non-controlling interests		**4,407**	3,711	3,447
Total Equity		**1,176,701**	1,075,170	1,000,506
Non-current Liabilities				
Deferred tax liabilities		**13,449**	12,710	17,491
		1,190,150	1,087,880	1,017,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES

New and revised Standards, Amendments and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK – Int 4 (Revised)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 17 "Leases"

As part of "Improvements to HKFRSs" issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$5,463,000 and HK$5,321,000 as at 1st January, 2009 and 31st December, 2009 respectively being reclassified to property, plant and equipment.

Summary of the effect of the changes in accounting polices

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1st January, 2009 and 31st December, 2009 are as follows:

	As at 1.1.2009 (originally stated)	**Adjustments**	**As at 1.1.2009 (restated)**	**As at 31.12.2009 (originally stated)**	**Adjustments**	**As at 31.12.2009 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	568,938	5,463	574,401	523,569	5,321	528,890
Prepaid lease payments						
– non-current	34,869	(5,321)	29,548	34,027	(5,179)	28,848
– current	886	(142)	744	886	(142)	744
Total effects on net assets	604,693	–	604,693	558,482	–	558,482

As at 31st December, 2010, leasehold land that qualifies for finance lease classification with the carrying amount of HK$5,179,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK – Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year. HK – Int 5 requires retrospective application.

In order to comply with the requirements set out in HK – Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK – Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$35,833,000 and HK$25,833,000 have been reclassified from non-current liabilities to current liabilities as at 1st January, 2009 and 31st December, 2009 respectively. As at 31st December, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$15,833,000 have been classified as current liabilities. The application of HK – Int 5 has had no impact on the reported profit or loss for the current and prior years.

Summary of the effect of the changes in accounting polices

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1st January, 2009 and 31st December, 2009 are as follows:

	As at 1.1.2009 (originally stated)	Adjustments	As at 1.1.2009 (restated)	As at 31.12.2009 (originally stated)	Adjustments	As at 31.12.2009 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings due within one year	48,824	35,833	84,657	10,000	25,833	35,833
Bank borrowings due after one year	35,833	(35,833)	–	25,833	(25,833)	–
Total effects on net assets	84,657	–	84,657	35,833	–	35,833

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

New and revised Standards, Amendments and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate

2 Effective for annual periods beginning on or after 1st July, 2010

3 Effective for annual periods beginning on or after 1st July, 2011

4 Effective for annual periods beginning on or after 1st January, 2013

5 Effective for annual periods beginning on or after 1st January, 2012

6 Effective for annual periods beginning on or after 1st January, 2011

7 Effective for annual periods beginning on or after 1st February, 2010

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors of the Company (the "Directors") anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013. The application of the new standard will affect the classification and measurement of the Group's available-for-sale investments and may affect the classification and measurement of other financial assets. At the date of this announcement, the Directors are in the process of assessing the potential financial impact to the Group.

The Directors anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

2. SEGMENT INFORMATION

The information reported to the Group's chief operating decision maker (i.e. Executive Directors) 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 segment:

For the year ended 31st December, 2010

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**839,210**	**405,124**	**81,971**	**34,721**	**1,361,026**
Result					
Segment profit	**107,698**	**53,019**	**13,377**	**4,248**	**178,342**
Unallocated income					**1,525**
Unallocated corporate expenses					**(39,356)**
Interest income on bank deposits					**1,380**
Finance costs					**(398)**
Profit before tax					**141,493**

For the year ended 31st December, 2009

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	739,004	327,765	63,584	39,415	1,169,768
Result					
Segment profit	106,654	44,340	11,941	3,893	166,828
Unallocated income					854
Unallocated corporate expenses					(35,614)
Interest income on bank deposits					1,231
Finance costs					(831)
Profit before tax					132,468

The accounting policies of the reportable 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' salaries, investment income, royalty income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Included in other income are:		
Sales of scrap materials	**5,633**	5,387
Compensation from customers	**3,523**	14,353
Interest income on bank deposits	**1,380**	1,231
Dividend income from available-for-sale investments	**943**	273
Royalty income on intangible assets	**581**	581

4. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Net loss on disposal of property, plant and equipment	**(9)**	(128)
Net foreign exchange gains	**4,334**	1,256
Loss on disposal of investment property	**–**	(21)
	4,325	1,107

5. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**398**	831

6. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**15,191**	16,264
– Underprovision in respect of prior year	**5**	–
	15,196	16,264
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**44**	11
– Overprovision in respect of prior year	**–**	(1,520)
	44	(1,509)
Deferred taxation		
– Current year	**732**	(4,962)
	15,972	9,793

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 was increased from 15% to 20% and 22% for the years ended 31st December, 2009 and 31st December, 2010 respectively and will increase progressively to 25% in the next two years in the Shenzhen Special Economic Zone or reduced from 33% to 25% outside the Shenzhen Special Economic Zone, from 1st January, 2008 onwards. PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 appointment basis, a portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

7. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,580**	1,480
Cost of inventories recognised as an expense	**1,032,533**	869,477
Depreciation of property, plant and equipment	**98,079**	95,886
Operating lease rentals in respect of rented premises	**4,354**	4,656
Release of prepaid lease payments	**977**	700
Staff costs:		
Directors' emoluments	**2,467**	2,339
Other staff		
– Salaries and other allowances	**414,398**	325,695
– Contributions to retirement benefit schemes	**3,659**	3,592
Total staff costs	**420,524**	331,626
Allowance for inventories	**–**	9,904
Allowance for doubtful debts, net	**1,707**	1,246

8. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2009 of 7.0 HK cents (2009: 6.5 HK cents in respect of 2008) per share	**26,855**	24,937
Interim dividend paid in respect of 2010 of 6.5 HK cents (2009: 6.5 HK cents in respect of 2009) per share	**24,938**	24,938
	51,793	49,875

A final dividend in respect of 2010 of 7.0 HK cents (2009: 7.0 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**124,729**	122,336
	Number of shares	
Number of shares for the purpose of basic earnings per share	**383,650,000**	383,650,000

No diluted earnings per share have been presented as there were no potential ordinary shares in issue during 2010 and 2009.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Trade debtors	**387,882**	337,386	416,155
Less: Allowance for doubtful debts	**(18,092)**	(24,732)	(27,430)
	369,790	312,654	388,725
Receivable from disposal of partial interests in a subsidiary	**–**	–	990
Bills receivable	**4,992**	–	–
Deposits and prepayments	**4,006**	3,473	4,742
Total debtors, deposits and prepayments	**378,788**	316,127	394,457

The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	**319,791**	254,164	318,458
91 – 180 days	**44,766**	54,697	70,267
More than 180 days	**5,233**	3,793	–
	369,790	312,654	388,725

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period.

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	**4,852**	–	–
91 – 180 days	**140**	–	–
	4,992	–	–

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

11. CREDITORS AND ACCRUED CHARGES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Trade creditors	**158,709**	136,485	147,455
Other creditors and accrued charges	**134,575**	124,094	116,845
	293,284	260,579	264,300

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

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	**113,423**	96,641	82,119
61 – 120 days	**43,150**	36,917	59,817
More than 120 days	**2,136**	2,927	5,519
	158,709	136,485	147,455

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

DIVIDENDS

The Board has resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2010. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2011, the final dividend will be payable on 8th June, 2011 to shareholders whose names appear on the register of members of the Company on 23rd May, 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18th May, 2011 to 23rd May, 2011, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 17th May, 2011 in order to qualify for the proposed final dividend mentioned above.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 23rd May, 2011. The notice of annual general meeting will be published on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk and will be despatched to the shareholders on or about 15th April, 2011.

BUSINESS REVIEW

Profitability analysis

The general market sentiment continued to improve gradually throughout 2010 and the Group's consolidated revenue increased by 16% to HK$1,361.0 million (2009: HK$1,169.8 million) whereas the profit attributable to owners of the Company increased by 2% to HK$124.7 million (2009: HK$122.3 million) in 2010. Basic earnings per share also increased correspondingly by 2% to 32.5 HK cents (2009: 31.9 HK cents) in the year under review.

As reported in our interim results, the gross profit margin of the Group was under pressure as a result of adverse movements in its various major cost components. In order to maintain its competitiveness in the increasingly tight labour market in mainland China, the Group had raised the wages of its workers in mainland China twice in 2010. Higher labour costs coupled with rising material costs, the accelerating inflationary environment in mainland China and the continuous appreciation of Renminbi dragged down the gross profit ratio (being the ratio of gross profit to revenue) of the Group from 24.8% in 2009 to 24.1% in 2010. Although the Group successfully contained its 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) at 15.0% this year (2009: 15.6%), the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) nevertheless decreased from 10.5% in 2009 to 9.2% in of 2010 because of the decline in the gross profit ratio.

Original design manufacturing (ODM) division

Since the decline of 17% in sales in 2009, sales to ODM customers increased by 16% from HK$1,064.2 million in 2009 to HK$1,238.5 million in 2010, primarily driven by the rebound in sales of sunglasses by 37% after a drop of 37% in 2009. Sales of prescription frames grew modestly by 6% in 2010 after a flat sales performance in the previous year. Being a discretionary spending item, sales of sunglasses were more volatile and closely tied to the global economic performance as compared with prescription frames. Sales of prescription frames, sunglasses and spare parts accounted for 57%, 41% and 2% respectively of the revenue of this division in 2010 (2009: 63%, 35% and 2% respectively).

Geographically, Europe, the United States (the "US"), Asia and other regions accounted for 62%, 32%, 4% and 2% respectively (2009: 64%, 31%, 3% and 2% respectively) of the revenue of the ODM division in 2010. Turnover was up by 12% in Europe, comparatively lower than the 24% rise in the US market as sales to the European market was affected by the sovereign debt crisis in Europe in the first half of 2010. Sales to Asian emerging countries also grew faster than western developed countries, driving up the sales to Asia by 46% in 2010.

Distribution and retailing divisions

Leveraging on an extensive global distribution network of more than 30 distributors, sales of the Group's distribution division picked up again in 2010 after a marginal decline of 3% in 2009. Revenue from the distribution division increased by 18% from HK$100.5 million in 2009 to HK$118.1 million in the year under review. Sales were up by 24% in Europe, 17% in Asia and 15% in North America in 2010. Sales to other regions were down by 7% due to the tightening of credit granted to customers. Sales to Europe, Asia, North America and other regions accounted for 59%, 26%, 5% and 10% respectively of the revenue of the distribution division in 2010 (2009: 56%, 26%, 5% and 13% respectively).

The retailing division of the Group operated a total of 3 shops in Shenzhen in both 2009 and 2010. Revenue of this division decreased by 14% from HK$5.1 million in 2009 to HK$4.4 million in 2010 as the main entrance of one of the shops was blocked by the construction of a Metro station throughout 2010.

Financial position and liquidity

Working capital management

In view of the drastic contraction in market demand for eyewear products since late 2008, aggressive action was taken by the management in 2009 to cut down the working capital requirement (being the net increase in inventory and debtors balances less increase in creditors balances) substantially by HK$114.6 million. As the market stabilized and started to recover gradually since mid-2009, the Group carefully raised its production capacity utilization, resulting in an increase in working capital requirements by HK$78.8 million in 2010. Inventory turnover period (being the ratio of inventory balance to cost of sales) increased accordingly from 62 days in 2009 to 70 days in 2010. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased slightly from 98 days to 101 days. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained fairly stable at 2.6 to 1 as at 31st December, 2010 (31st December, 2009: 2.7 to 1).

Cash flows

Although the profit attributable to owners of the Company increased slightly from HK$122.3 million in 2009 to HK$124.7 million in 2010, the net cash generated from operating activities decreased substantially from HK$332.7 million in 2009 to HK$139.7 million in 2010, principally due to the effects of changes in working capital requirements as explained above. As the management made adjustments to the capital expenditure plan in 2009 and postponed part of the investments to 2010, capital expenditure increased substantially from HK$44.6 million in 2009 to HK$160.9 million (including HK$54.1 million of net cash outflow on acquisition of subsidiaries with property interests in mainland China) in 2010. Total dividend payments of HK$51.9 million were made in 2010 (2009: HK$50.0 million). 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) decreased from HK$305.9 million as at 31st December, 2009 to HK$239.6 million as at 31st December, 2010.

Gearing position

The non-current liabilities of the Group comprised of only deferred taxation which amounted to HK$13.4 million as at 31st December, 2010 (31st December, 2009: HK$12.7 million). The Group continued to keep a low gearing position throughout the year under review. The debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to owners of the Company) declined slightly from 1.2% as at 31st December, 2009 to 1.1% as at 31st December, 2010.

Net book value

The Group had 383,650,000 shares in issue as at both 31st December, 2010 and 31st December, 2009 with an equity attributable to owners of the Company amounting to HK$1,172.3 million and HK$1,071.5 million as at 31st December, 2010 and 31st December, 2009 respectively. Net asset value per share (being equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2010 was HK$3.06 (31st December, 2009: HK$2.79).

Foreign currency exposure

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

Contingent liabilities

	2010	2009
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,729**	9,688

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2009 and 31st December, 2010 are insignificant and of low applicable default risk. The Group has not recognised any deferred income in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

ODM division

The Group's ODM division currently maintains a stable order book of around three months sales order on hand. Despite the volatile global economic environment and low business visibility, customers are generally optimistic about the business outlook in 2011. The main theme of our work in 2011 is to tackle challenges on our margin. The minimum wages of Zhongshan has risen by 20% since 1st March, 2011 whereas the minimum wages of Shenzhen will also rise by 20% on 1st April, 2011. This will put further pressure on labour costs of our factories in these two cities. Gradual appreciation of Renminbi, the increase in raw material costs and relatively higher inflationary environment in mainland China continue to put our operating margin under pressure. Modest price adjustments to our products, manufacture of higher margin products such as our house brands and licensed brands products as well as internal streamlining of our operations to improve our operational efficiency will be implemented to alleviate the cost pressure. Any capacity expansion will be critically evaluated so that our bargaining power on the prices of our products will be preserved.

Production facilities

In June 2010, the Group received a letter from the Land Preparation and Resettlements Bureau of Tiyuxinchen District, Shenzhen requesting the Group to prepare for the relocation of its factory in Shenzhen. In July 2010, the Group acquired the land use rights of or the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon. We have already relocated one production line to this new site where new industrial buildings are being constructed. We are also in the process of developing an environmental protection facility in another factory site in Heyuan. These developments will provide us with more flexibility in the master factory relocation plan. We will manage the relocation plan in phases to make sure that our operations will not be disrupted and we anticipate that the whole process will take about five years to complete.

The 26th Summer Universiade will be held in Shenzhen in August this year. The management is closely evaluating the impact of this event on our production planning and will take appropriate measures such as rescheduling of holidays for the workers to make sure that our production capability as well as delivery services to our customers will not be affected.

Distribution and retailing divisions

The Group continues to make strategic investments in its distribution division. We will create and formulate a new advertising and brand strategy for our owned German brand "**STEPPER**". Our enterprises resources planning system will also be upgraded so that our forecasting, production planning and inventory management capabilities will be further enhanced. More inter-active events will be held with our distributors to identify any cross-selling opportunities.

We expect relatively limited contribution from the retailing division in 2011 as there will not be any significant change in its operating scale.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2010, the Group employed approximately 11,800 (31st December, 2009: 10,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Code on Corporate Governance Practices (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, 2010 except for the deviations 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 the 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, 2010, and the consolidated statement of 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, 2010 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 purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2010.

PUBLICATION OF ANNUAL REPORT

The 2010 annual report will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk on or about 15th April, 2011.

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. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 30th March, 2011