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, 2017

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, 2017 together with last year's comparative figures.

FINANCIAL HIGHLIGHTS

	2017	2016
Revenue	**HK$1,028,188,000**	HK$1,255,126,000
(Loss) profit attributable to owners of the Company	**HK$(674,549,000)**	HK$835,754,000
(Loss) earnings per share	**HK$(1.76)**	HK$2.18
Final dividend per share	**Nil**	Nil
Second special dividend per share	**Nil**	25.0 HK cents

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	2	**1,028,188**	1,255,126
Cost of sales		**(870,675)**	(1,095,052)
Gross profit		**157,513**	160,074
Other income	3	**31,307**	28,731
Other gains and losses	4	**(497,953)**	69,761
Net gain relating to the disposal of land and premises		**–**	1,218,783
Gain on disposal of a subsidiary	5	**29,208**	–
Distribution and selling expenses		**(29,863)**	(25,579)
Administrative expenses		**(351,318)**	(606,569)
Other expenses		**(1,015)**	(2,569)
Finance costs	6	**(4,650)**	(4,891)
Share of profit of an associate		**9,154**	6,482
Share of profit (loss) of a joint venture		**78**	(193)
(Loss) profit before tax		**(657,539)**	844,030
Income tax expense	7	**(11,408)**	(3,612)
(Loss) profit for the year	8	**(668,947)**	840,418
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**101,676**	(49,028)
Release of exchange reserve upon disposal of a subsidiary		**1,691**	–
Total comprehensive (expense) income for the year		**(565,580)**	791,390
(Loss) profit for the year attributable to:			
Owners of the Company		**(674,549)**	835,754
Non-controlling interests		**5,602**	4,664
		(668,947)	840,418
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(571,902)**	788,108
Non-controlling interests		**6,322**	3,282
		(565,580)	791,390
(Loss) earnings per share	10		
– Basic		**HK$(1.76)**	HK$2.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current Assets			
Investment properties		**154,190**	141,480
Property, plant and equipment		**620,327**	1,084,173
Prepaid lease payments		**31,998**	64,472
Deposits paid for acquisition of property, plant and equipment		**1,409**	1,692
Intangible assets		**11,203**	13,128
Goodwill		**8,260**	7,455
Interest in an associate		**33,304**	25,195
Interest in a joint venture		**–**	–
Loan receivable		**–**	–
Other receivables		**787**	1,400
Deferred tax assets		**206**	186
		861,684	1,339,181
Current Assets			
Inventories		**158,224**	162,882
Debtors, deposits and prepayments	11	**289,178**	357,449
Loan receivable		**–**	–
Other receivables		**1,007**	894
Prepaid lease payments		**849**	1,467
Derivative financial instruments		**–**	128
Tax recoverable		**112**	2,647
Structured deposits		**114,911**	–
Short-term bank deposits		**22,982**	555,855
Bank balances and cash		**210,464**	73,234
		797,727	1,154,556
Current Liabilities			
Creditors and accrued charges	12	**416,264**	424,953
Bank borrowings	13	**56,687**	218,857
Tax liabilities		**9,846**	2,347
		482,797	646,157
Net Current Assets		**314,930**	508,399
Total Assets less Current Liabilities		**1,176,614**	1,847,580
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,106,222**	1,781,710
Equity attributable to owners of the Company		**1,144,587**	1,820,075
Non-controlling interests		**22,232**	16,517
Total Equity		**1,166,819**	1,836,592
Non-current Liabilities			
Deferred tax liabilities		**9,795**	10,988
		1,176,614	1,847,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, 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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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 operating and reportable segment:

For the year ended 31st December, 2017

	Europe	**United States**	**Asia**	**Other regions**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue					
External sales	**556,438**	**298,745**	**131,539**	**41,466**	**1,028,188**
Result					
Segment (loss) profit	**(12,324)**	**(22,281)**	**(8,418)**	**1,312**	**(41,711)**
Unallocated income and gains					**25,290**
Unallocated corporate expenses and losses					**(687,252)**
Gain on disposal of a subsidiary					**29,208**
Interest income on bank deposits					**12,344**
Finance costs					**(4,650)**
Share of profit of an associate					**9,154**
Share of profit of a joint venture					**78**
Loss before tax					**(657,539)**

For the year ended 31st December, 2016

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

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

3. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Included in other income are:		
Sales of scrap materials	**3,919**	4,290
Sales of construction materials	**904**	6,073
Compensation from customers	**5,745**	3,960
Interest income on bank deposits	**12,344**	3,309
Gross rental income from investment properties	**3,640**	2,968
Government subsidy	**1,145**	5,311

4. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Net foreign exchange gains	**8,804**	78,831
Net gain (loss) on disposal of property, plant and equipment	**136**	(115)
Allowance for doubtful debts, net	**(7,487)**	(3,003)
Increase in fair values of investment properties	**12,710**	630
(Decrease) increase in fair values of derivative financial instruments	**(131)**	164
Impairment loss of property, plant and equipment *(Note)*	**(491,155)**	–
Impairment loss of prepaid lease payments *(Note)*	**(18,845)**	–
Impairment loss of trademark	**(1,700)**	(820)
Impairment loss of investment in a joint venture	**(285)**	(4,666)
Impairment loss of loan receivable	**–**	(1,260)
	(497,953)	69,761

Note: The Group performed substantially below budget due to decrease in sales orders from certain key customers. In the 4th quarter of year 2017, the management of the Group considered there were impairment indicators and hence conducted an impairment assessment on the relevant property, plant and equipment and prepaid lease payments, which constitutes an individual cash-generating unit of manufacturing and distribution business for the purpose of impairment assessment. The recoverable amounts of the respective cash-generating unit have been determined at higher of fair value less costs of disposal and value in use of the property, plant and equipment and prepaid lease payments to which the relevant assets belong to. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, in which 15.9%

and 7.95% sales growth rate in first two years and subsequent three years, respectively. The cash flows beyond the 5-year period are extrapolated up to the end of the relevant useful life of the building fixtures with zero growth rate, and at a discount rate of 14.1% which was provided by an independent professional appraiser.

Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market. Accordingly, an impairment loss of HK$491,155,000 and HK$18,845,000 respectively has been recognised in respect of property, plant and equipment and prepaid lease payments respectively, of the Group, which has been allocated to the buildings, leasehold improvements, plant and machinery, furniture, fixtures and office equipment and motor vehicles of property, plant and equipment as well as prepaid lease payments.

5. GAIN ON DISPOSAL OF A SUBSIDIARY

On 1st June, 2017, 宏懋金屬製品(深圳)有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited") ("Hongmao"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreement, Hongmao agreed to sell and the Purchaser agreed to purchase the entire equity interest in 惠州市藝駿房地產開發有限公司 (known as "Huizhou Yijun Real Estate Development Company Limited") ("Yijun"), a wholly-owned subsidiary of Hongmao, at a consideration of RMB45,000,000 (equivalent to approximately HK$51,838,000). The consideration was determined after arm's length negotiation between Hongmao and the Purchaser and the transaction was completed on 28th June, 2017.

Yijun is principally engaged in property holding. The principal asset owned by Yijun is two parcels of land located at Dong Feng Village, Xinxu Town, Huizhou City, Guangdong Province, the People's Republic of China (the "PRC") with a total site area of approximately 24,893.90 square metres.

Consideration received:

	HK$'000
Cash consideration	51,838

Analysis of net assets and liability at the date of disposal:

	HK$'000
Other debtor	3,602
Prepaid lease payments	16,646
Bank balance and cash	121
Building	414
Deposit paid for acquisition of property	194
Accrued charge	(38)
Net assets disposed of	20,939

Gain on disposal of a subsidiary:

	HK$'000
Consideration	51,838
Net assets disposed of	(20,939)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss upon disposal of a subsidiary	(1,691)
Gain on disposal	29,208

Net cash inflow on disposal of a subsidiary:

	HK$'000
Cash consideration received	51,838
Less: Bank balance and cash disposed of	(121)
	51,717

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interests on bank borrowings	**4,650**	4,891

7. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**3,422**	2,041
– Overprovision in respect of prior year	**(40)**	(20)
	3,382	2,021
PRC Enterprise Income Tax		
– Current year	**7,480**	268
– (Over)underprovision in respect of prior year	**(497)**	2
	6,983	270
United Kingdom Corporation Tax		
– Current year	**1,881**	1,762
France Corporation Tax		
– Current year	**355**	673
Deferred taxation		
– Current year	**(1,193)**	(1,114)
	11,408	3,612

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% (2016: 20%) 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.

8. (LOSS) PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Amortisation of intangible assets	**1,930**	1,920
Auditor's remuneration		
– Audit service	**1,450**	1,830
– Non-audit services	**631**	590
Cost of inventories recognised as an expense (included allowance for inventories of HK$2,599,000 (2016: HK$1,099,000))	**870,675**	1,095,052
Depreciation of the property, plant and equipment	**190,247**	147,979
Less: Capitalised in inventories	**(25,691)**	(35,469)
	164,556	112,510
Operating lease rentals in respect of rented premises	**2,485**	3,074
Release of prepaid lease payments	**1,359**	1,648
Staff costs:		
Directors' emoluments	**3,388**	3,792
Other staff		
– Salaries and other allowances	**453,229**	566,234
– Contributions to retirement benefit schemes	**36,904**	40,261
– Economic compensation *(Note)*	**–**	285,212
Total staff costs	**493,521**	895,499
and after crediting:		
Gross rental income from investment properties	**3,640**	2,968
Less: Direct expenses of investment properties that generated rental income during the year	**(774)**	(690)
	2,866	2,278

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

9. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
First special dividend paid of 2.0 HK cents in respect of 2017 (2016: 3.8 HK cents in respect of 2016) per share	**7,673**	14,579
Second special dividend paid of 25.0 HK cents in respect of 2016 (2016: 3.8 HK cents in respect of 2015) per share	**95,913**	14,579
	103,586	29,158

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December, 2017, has been proposed by the directors of the Company (the "Directors") (2016: nil).

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:

	2017	2016
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of basic (loss) earnings per share		
− (Loss) profit for the year attributable to owners of the Company	**(674,549)**	835,754
	Number of shares	
Number of shares for the purpose of basic (loss) earnings per share	**383,650,000**	383,650,000

No diluted (loss) earnings per share has been presented as there was no potential ordinary shares in issue during 2017 and 2016.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Trade debtors	**326,110**	391,634
Less: Allowance for doubtful debts	**(51,002)**	(43,547)
	275,108	348,087
Bills receivable	**779**	1,242
Other debtors, deposits and prepayments	**13,291**	8,120
Total debtors, deposits and prepayments	**289,178**	357,449

The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**192,963**	262,459
91 – 180 days	**76,327**	84,150
More than 180 days	**5,818**	1,478
	275,108	348,087

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

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**779**	1,242

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

12. CREDITORS AND ACCRUED CHARGES

	2017	2016
	HK$'000	*HK$'000*
Trade creditors	**98,840**	106,587
Other creditors and accrued charges	**317,424**	318,366
	416,264	424,953

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

	2017	2016
	HK$'000	*HK$'000*
0 − 60 days	**81,849**	88,999
61 − 120 days	**13,793**	16,007
More than 120 days	**3,198**	1,581
	98,840	106,587

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

13. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Bank borrowings:		
− Secured	**56,687**	171,797
− Unsecured	**–**	47,060
	56,687	218,857
Carrying amount of the bank borrowings repayable based on repayment schedules:		
− within one year	**26,054**	102,162
− more than one year, but not exceeding two years	**5,365**	86,071
− more than two years, but not exceeding five years	**17,003**	16,564
− more than five years	**8,265**	14,060
	56,687	218,857
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(56,687)**	(218,857)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. Bank borrowings of HK$27,014,000 (2016: HK$30,880,000) and nil (2016: HK$60,000,000) carry interests at Hong Kong Prime Rate less 2.6% and one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% respectively. These borrowings are secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$155,455,000 (2016: HK$142,797,000).

A bank borrowing of HK$8,840,000 (2016: HK$10,084,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$31,585,000 (2016: HK$32,730,000) and carries interest at one-month HIBOR plus 1.8%.

A bank borrowing of HK$20,833,000 (2016: HK$70,833,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$35,887,000 (including leasehold land and building with carrying amount of HK$31,585,000 as mentioned-above) and carries interest at one-month HIBOR plus 2.9%.

At 31st December, 2016, unsecured bank borrowings of HK$47,060,000 carried interests at HIBOR plus certain basis points.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2016: nil), and a second special dividend (2016: 25.0 HK cents per share) for the year ended 31st December, 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 24th May, 2018 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 pm on 17th May, 2018
Closure of register of members	18th May, 2018 to 24th May, 2018 (both dates inclusive)
Record date	24th May, 2018

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, 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 2018.

BUSINESS REVIEW

Profitability analysis

For the financial year ended 31st December, 2017, the Group recorded a loss attributable to owners of the Company and loss per share of HK$164.5 million and HK$0.43 respectively (2016: profit attributable to owners of the Company and earnings per share of HK$835.8 million and HK$2.18 respectively). In addition, a non-operational impairment loss of HK$510.0 million for property, plant and equipment, and prepaid lease payments was recorded due to unexpected decrease in sales orders from certain key customers in business of original design manufacturing division. As a result, total loss attributable to owners of the Company and loss per share increased to HK$674.5 million and HK$1.76 respectively after included the impairment loss.

The business environment was extremely challenging during the year amid the change of major customer's sourcing strategies and the cost pressure arising from continuing shrink of business volume after relocation of our Shenzhen manufacturing plant since 2015. The Group's consolidated revenue decreased by 18% to HK$1,028.2 million in 2017 (2016: HK$1,255.1 million).

Other than the impairment loss mentioned-above, the loss reported for the year of 2017 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 18% in 2017 as compared with 2016;

(ii) the continuous increase in labour costs and other operating costs in Mainland China in 2017; and

(iii) higher depreciation charges of the new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City after they fully went into production in 2017.

Original design manufacturing ("ODM") division

Our ODM division was the key revenue contributor and revenue generated by this division contributed to 75% of the consolidated revenue of the Group in 2017 (2016: 82%). Sales to ODM customers significantly decreased by 24% from HK$1,027.0 million in 2016 to HK$776.1 million in 2017. Geographically, sales to customers in Europe, the United States (the "US") and Asia accounted for 53%, 37% and 10% respectively of the revenue of the ODM division in 2017 (2016: 62%, 31% and 7% respectively). Sales to Europe and the US dropped by 35% and 11% respectively whereas sales to Asia increased moderately by 6% in 2017. Significant reduction in sales in European market mainly because one of our major European customers had changed her purchasing strategy from outsourcing to self-production during the year. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2017. Sales of prescription frames, sunglasses and spare parts accounted for 51%, 47% and 2% respectively of revenue of the ODM division in 2017 (2016: 53%, 45% and 2% respectively).

Distribution division

Our distribution division continued to benefit from the consumers' preference for value frames in the face of economic challenges. Revenue generated by the distribution division increased by 12% from HK$226.1 million in 2016 to HK$252.1 million in 2017 and accounted for 25% of the consolidated revenue of the Group in 2017 (2016: 18%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France and South Africa, and independent distributors in other countries. Europe was still the biggest market but its relative proportion of sales decreased due to higher growth rates recorded for sales to other geographical markets. Sales to Europe, Asia, the US and other regions accounted for

58%, 20%, 6% and 16% respectively of the revenue of the distribution division in 2017 (2016: 59%, 19%, 11% and 11% respectively). Sales to Europe, Asia and other regions were up by 10%, 18% and 61% respectively. On the other hand, sales dropped by 38% in the US after we tighten the credit control for our major US distributor. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK$46.1 million (2016: net cash outflow of HK$321.0 million) despite a substantial loss recorded for the year. The Group spent HK$142.3 million in capital expenditure and majority of these expenditures spent were for final phase of new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City. The Group also arranged early settlement of a term loan with bank with a total amount of HK$60.0 million to reduce interest costs. The net cash position of the Group (being the total of structure deposits, short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$410.2 million as at 31st December, 2016 to HK$291.7 million as at 31st December, 2017.

Working capital management

In line with the decline in revenue during the period under review, total amounts of trade debtors and bills receivable balances decreased by 21% from HK$349.3 million as at 31st December, 2016 to HK$275.9 million as at 31st December, 2017. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) decreased from 102 days in 2016 to 98 days in 2017 which mainly driven by higher decrease in sales from major ODM customers who generally had longer payment terms. Inventories balances only decreased slightly by 3% from HK$162.9 million as at 31st December, 2016 to HK$158.2 million as at 31st December, 2017 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2018. It also leaded to inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 54 days in 2016 to 66 days in 2017. Due to the final portion of capital expenditure spent by the Group for the relocation of its factory in early 2017, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased slightly from 1.8 to 1.0 as at 31st December, 2016 to 1.7 to 1.0 as at 31st December, 2017. We expect the current ratio will become stable after completion of the relocation project.

Gearing position

The Group maintained a low gearing position throughout 2017. 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, 2017 and 31st December,

2016. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$9.8 million as at 31st December, 2017 (31st December, 2016: HK$11.0 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2017 and 31st December, 2016 with equity attributable to owners of the Company HK$1,144.6 million and HK$1,820.1 million as at 31st December, 2017 and 31st December, 2016 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, 2017 was HK$2.98 (31st December, 2016: HK$4.74).

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 the Hong Kong dollar were relatively stable during the year under review.

PROSPECTS

Looking forward, the business environment for our ODM business is expected to remain challenging and the market demand will still be volatile because of the unresolved Brexit event and the recent trade actions by the US administration increase the risks of a full-scale trade war. In view of the challenge ahead, the Group will work closely with our key customers to provide high quality products with competitive price range.

The business of distribution division has continued to grow healthy in 2017. It is the Group's long term strategy to increase investments in this higher margin business to drive for future growth and leverage the risk from the highly competitive environment in ODM business. In January 2018, the Group had set up a new subsidiary in Shanghai, China to strengthen the distribution business of STEPPER eyewear in this highly populated market. Direct distribution of the Group's STEPPER eyewear is conducted by the Group's subsidiaries in the United Kingdom, France and South Africa and by independent distributors in other countries. The Group is actively pursuing investment opportunities to further strengthen and expand its brands portfolio and distribution network.

On the cost side, Renminbi has steadily appreciated against the US dollars since second quarter of 2017 which will certainly put pressure on the margins of the Group. To improve the profit margin, the management has set up relevant committees to streamline its operation efficiency and implement various cost saving exercises.

Going forward, the management will continue to build on our strong financial position and cautiously invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network while adhering to our prudent financial discipline.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2017, the Group employed approximately 5,300 (31st December, 2016: 7,500) full time staff in Mainland China, Hong Kong, Europe and South Africa. 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, 2017, except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in the future as it believes that this ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position as at 31st December, 2017, 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, 2017 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, 2017.

PUBLICATION OF ANNUAL REPORT

The 2017 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 2018.

DIRECTORS

As at the date of this announcement, the Board comprises five directors, two of whom are executive directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, 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, 28th March, 2018