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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)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2021

INTERIM RESULTS

The board of directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2021 together with comparative figures for the corresponding period in 2020.

	Six months ended	
	30.6.2021	30.6.2020
Revenue	HK\$529,073,000	HK\$343,895,000
Loss attributable to owners of the Company	HK\$(5,609,000)	HK\$(94,651,000)
Loss per share	(1.45) HK cents	(24.50) HK cents
Interim dividend per share	Nil	Nil

* For identification purpose only

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30th June, 2021

		Unaudited	
		Six months ended 30th June,	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	529,073	343,895
Cost of sales		<u>(392,910)</u>	<u>(287,988)</u>
Gross profit		136,163	55,907
Other income		6,410	11,776
Other gains and losses		(6,511)	(19,557)
Reversal of impairment losses/(impairment losses)		276	(2,929)
Distribution and selling expenses		(20,331)	(11,544)
Administrative expenses		(116,606)	(130,272)
Other expenses		<u>(484)</u>	<u>(355)</u>
Loss from operations		(1,083)	(96,974)
Finance costs	4	(732)	(366)
Share of profit of an associate		<u>2,637</u>	<u>2,226</u>
Profit/(loss) before tax		822	(95,114)
Income tax expense	5	<u>(3,355)</u>	<u>(910)</u>
Loss for the period	6	<u>(2,533)</u>	<u>(96,024)</u>
Other comprehensive income/(expense) after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value change of equity investment at fair value through other comprehensive income ("FVTOCI")		<u>2,896</u>	<u>—</u>
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		6,841	(10,978)
Exchange differences arising on translation of an associate		<u>(1,074)</u>	<u>(62)</u>
		<u>5,767</u>	<u>(11,040)</u>
Other comprehensive income/(expense) for the period, net of tax		<u>8,663</u>	<u>(11,040)</u>
Total comprehensive income/(expense) for the period		<u>6,130</u>	<u>(107,064)</u>

		Unaudited	
		Six months ended 30th June,	
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period attributable to:			
Owners of the Company		(5,609)	(94,651)
Non-controlling interests		3,076	(1,373)
		<u>(2,533)</u>	<u>(96,024)</u>
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		2,856	(105,123)
Non-controlling interests		3,274	(1,941)
		<u>6,130</u>	<u>(107,064)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic and diluted	8	<u>(1.45)</u>	<u>(24.50)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2021

		Unaudited 30th June, 2021 <i>HK\$'000</i>	Audited 31st December, 2020 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Investment properties		143,000	140,490
Property, plant and equipment		157,744	101,566
Deposits paid for acquisition of property, plant and equipment		31,707	28,130
Intangible assets		31,730	5,490
Goodwill		28,432	8,260
Investment in an associate		36,694	45,725
Investment in a joint venture		—	—
Derivative financial instrument		—	1,573
Equity investment at FVTOCI		—	48
Equity investment at fair value through profit or loss (“FVTPL”)		11,000	8,875
Contingent consideration receivable		965	—
Deferred tax assets		4,829	3,287
		446,101	343,444
Current assets			
Inventories		136,518	129,120
Debtors, deposits and prepayments	9	311,204	228,405
Tax recoverable		—	845
Short-term bank deposit		1,180	—
Bank balances and cash		149,152	212,563
		598,054	570,933
Current liabilities			
Creditors and accrued charges	10	435,655	390,020
Contract liabilities		8,475	5,910
Refund liabilities		4,455	4,455
Consideration payable		28,271	449
Lease liabilities		4,044	1,039
Bank borrowings	11	16,951	19,780
Derivative financial instrument		—	4,261
Tax liabilities		10,754	8,030
		508,605	433,944
Net current assets		89,449	136,989
Total assets less current liabilities		535,550	480,433

	Unaudited 30th June, 2021 <i>HK\$'000</i>	Audited 31st December, 2020 <i>HK\$'000</i>
Non-current liabilities		
Consideration payable	1,048	1,048
Lease liabilities	8,211	2,622
Deferred tax liabilities	13,949	7,831
	<u>23,208</u>	<u>11,501</u>
NET ASSETS	<u>512,342</u>	<u>468,932</u>
Capital and reserves		
Share capital	38,626	38,626
Reserves	390,289	387,918
	<u>428,915</u>	<u>426,544</u>
Equity attributable to owners of the Company	428,915	426,544
Non-controlling interests	83,427	42,388
	<u>512,342</u>	<u>468,932</u>
TOTAL EQUITY	<u>512,342</u>	<u>468,932</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2021

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed financial statements should be read in conjunction with the 2020 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2020.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in these financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31st December, 2020. In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1st January, 2021 but they do not have a material effect on the Group’s financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January, 2021 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker (the “CODM”), 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 profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors’ emoluments, interest income, property rental income, net foreign exchange gains or losses, increase or decrease in fair values of investment properties, increase or decrease in fair value of equity investment at FVTPL, net increase in fair values of derivative financial instruments, gain on disposal of partial investment in an associate, finance costs and share of profit of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenues and segment results are presented.

Segment revenues and results

The following is an analysis of the Group's revenue and result by operating and reportable segment for the period under review:

For the six months ended 30th June, 2021 (unaudited)

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Revenue from contracts with customers (Note)</i>					
Original design manufacturing division	248,919	112,432	32,500	8,482	402,333
Distribution division	75,866	11,424	11,323	9,558	108,171
Lens division	—	—	18,569	—	18,569
	<u>324,785</u>	<u>123,856</u>	<u>62,392</u>	<u>18,040</u>	<u>529,073</u>
<i>Result</i>					
Segment profit	<u>9,105</u>	<u>17</u>	<u>3,425</u>	<u>1,153</u>	13,700
Unallocated income and gains					11,214
Unallocated corporate expenses and losses					(26,143)
Interest income on bank deposits					146
Finance costs					(732)
Share of profit of an associate					<u>2,637</u>
Profit before tax					<u><u>822</u></u>

For the six months ended 30th June, 2020 (unaudited)

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from contracts with customers (Note)					
Original design manufacturing division	151,490	90,391	30,489	1,832	274,202
Distribution division	44,998	8,883	8,579	7,233	69,693
Revenue from external customers	<u>196,488</u>	<u>99,274</u>	<u>39,068</u>	<u>9,065</u>	<u>343,895</u>
Result					
Segment loss	<u>(17,822)</u>	<u>(9,264)</u>	<u>(4,897)</u>	<u>(433)</u>	(32,416)
Unallocated income and gains					6,713
Unallocated corporate expenses and losses					(71,409)
Interest income on bank deposits					138
Finance costs					(366)
Share of profit of an associate					<u>2,226</u>
Loss before tax					<u><u>(95,114)</u></u>

Note: Revenue is recognised at “point in time” when the customer obtains control of the goods.

4. FINANCE COSTS

	Six months ended 30th June,	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interests on bank borrowings	283	350
Interests on lease liabilities	449	16
	<u>732</u>	<u>366</u>

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current period:		
Hong Kong Profits Tax	307	30
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	760	—
United Kingdom Corporation Tax	1,540	232
France Corporation Tax	597	—
South Africa Corporation Tax	186	—
Deferred taxation	(749)	286
	<u>2,641</u>	<u>548</u>
Under/(over)provision in respect of prior period:		
Hong Kong Profits Tax	409	364
PRC Enterprise Income Tax	305	(2)
	<u>714</u>	<u>362</u>
	<u><u>3,355</u></u>	<u><u>910</u></u>

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5% for both periods.

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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 periods.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both periods.

France Corporation Tax is calculated at the applicable rate of 27.5% (2020: 28%) for amounts of taxable profit up to Euro ("EUR") 500,000 and a corporate tax rate of 27.5% (2020: 31%) for taxable profit above EUR500,000 in accordance with the relevant law and regulations in France for both periods.

South Africa Corporation Tax is calculated at the applicable rate of 28% in accordance with the relevant law and regulations in South Africa for both periods.

6. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging/(crediting) the following:

	Six months ended 30th June,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of intangible assets (included in distribution and selling expenses)	1,114	1,063
(Reversal of impairment losses)/impairment losses recognised on debtors	(276)	2,929
Cost of inventories recognised as an expense	392,910	287,988
Depreciation of property, plant and equipment	5,413	49,508
(Increase)/decrease in fair values of investment properties	(2,510)	19,630
Gross rental income from investment properties (included in other income)	(1,160)	(1,808)
Less: Direct expenses of investment properties that generated rental income during the period	334	346
	<u>(826)</u>	<u>(1,462)</u>
Net gain on disposal of property, plant and equipment (included in other gains and losses)	—	(5)
Gain on disposal of partial investment in an associate (included in other gains and losses)	(2,731)	—
Net increase in fair values of derivative financial instruments (included in other gains and losses)	(2,688)	—
(Increase)/decrease in fair value of equity investment at FVTPL	(2,125)	4,751
(Write back of)/allowance for inventories (included in cost of sales) (<i>Note</i>)	(13,518)	2,053
Net foreign exchange losses/(gains) (included in other gains and losses)	<u>16,565</u>	<u>(4,819)</u>

Note: Because of the change in the market conditions of the Group's products during the period, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of HK\$13,518,000 (six months ended 30th June, 2020: nil) was reversed.

7. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2021 and 30th June, 2020.

During the six months ended 30th June, 2021 and 30th June, 2020, the Board did not recommend the payment of a final dividend for the year ended 31st December, 2020 and 31st December, 2019, respectively.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Six months ended 30th June,	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss for the purpose of basic loss per share		
– Loss for the period attributable to owners of the Company	<u>(5,609)</u>	<u>(94,651)</u>
	2021	2020
	<i>Number of</i>	<i>Number of</i>
	<i>shares</i>	<i>shares</i>
Weighted average number of shares for the purpose of basic loss per share	<u>386,263,374</u>	<u>386,263,374</u>

No diluted loss per share has been presented as there was no potential ordinary shares in issue for both periods.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$287,756,000 (31st December, 2020: HK\$202,887,000). The following is the ageing analysis of trade debtors net of allowance for credit losses presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30th June,	31st December,
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 90 days	232,922	173,844
91 – 180 days	51,892	25,824
More than 180 days	<u>2,942</u>	<u>3,219</u>
	<u>287,756</u>	<u>202,887</u>

As at 30th June, 2021, total bills received amounting to HK\$414,000 (31st December, 2020: HK\$368,000) are held by the Group for settlement of debtors. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

10. CREDITORS AND ACCRUED CHARGES

	30th June, 2021	31st December, 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Trade creditors	145,944	111,836
Other creditors and accrued charges	289,711	278,184
	<u>435,655</u>	<u>390,020</u>

The ageing analysis of trade creditors, based on the invoice date, is as follows:

	30th June, 2021	31st December, 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 60 days	111,086	68,681
61 – 120 days	24,954	34,620
More than 120 days	9,904	8,535
	<u>145,944</u>	<u>111,836</u>

11. BANK BORROWINGS

	30th June, 2021	31st December, 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Secured bank borrowings	<u>16,951</u>	<u>19,780</u>

The bank borrowings are repayable as follows (*Note*):

	30th June, 2021	31st December, 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Within one year	5,763	5,691
More than one year, but not exceeding two years	5,907	5,835
More than two years, but not exceeding five years	<u>5,281</u>	<u>8,254</u>
	16,951	19,780
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(16,951)</u>	<u>(19,780)</u>
Amounts due after one year shown under non-current liabilities	<u><u>–</u></u>	<u><u>–</u></u>

Note: The amounts due are based on the scheduled repayment dates set out in the respective loan agreements.

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK\$12,654,000 (31st December, 2020: HK\$14,791,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties with carrying amount of HK\$143,000,000 (31st December, 2020: HK\$140,490,000).

A bank borrowing of HK\$4,297,000 (31st December, 2020: HK\$4,989,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$27,578,000 (31st December, 2020: HK\$28,151,000) and carries interest at one month Hong Kong Interbank Offered Rate plus 1.8%.

DIVIDENDS

The Board has resolved not to declare any interim dividend (2020: nil) for the six months ended 30th June, 2021.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 54% to HK\$529.1 million during the six months ended 30th June, 2021 (2020: HK\$343.9 million). A loss attributable to owners of the Company decreased significantly by 94% to HK\$5.6 million during the period under review (2020: HK\$94.7 million). Loss per share was 1.45 HK cents (2020: 24.50 HK cents).

The major reasons for such decrease in the loss attributable to owners include:

- (a) the robust growth in total revenue of the Group in the first half of 2021, particularly in the European market which grew by 65% compared to the corresponding period in 2020;
- (b) the Group recorded a fair valuation gain of HK\$2.5 million on the revaluation of investment properties for the six months ended 30th June, 2021, whereas a fair valuation loss of HK\$19.6 million was recorded for the corresponding period in 2020;
- (c) improvement in operation efficiency and supply chain synergy;
- (d) significant reduction in depreciation charges for the six months ended 30th June, 2021 after impairment of property, plant and equipment in 2020; and
- (e) positive impact of economies of scale resulting from Group's increase in revenue and production volume in the first half of 2021.

Original design manufacturing (“ODM”) division

Revenue generated by the ODM division contributed 76% to the consolidated revenue of the Group in the period under review (2020: 80%). Sales to ODM customers increased by 47% from HK\$274.2 million in the first six months of 2020 to HK\$402.3 million in the first six months of 2021. The robust growth in revenue was mainly due to the gradual easing of social gathering and travel restrictions in European countries and the United States (the “US”) since the commencement of mass vaccination programmes for COVID-19 in early 2021. Geographically, sales to Europe, the US, Asia and other regions accounted for 62%, 28%, 8% and 2% respectively (2020: 55%, 33%, 11% and 1% respectively) of the revenue of the ODM division during the period

under review. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 58%, 39% and 3% of the revenue generated by the ODM division respectively during the period under review (2020: 51%, 46% and 3% respectively).

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, South Africa, China and Germany, and to independent distributors in other countries. Revenue for the distribution division increased by 55% to HK\$108.2 million (2020: HK\$69.7 million) and accounted for 20% (2020: 20%) of the consolidated revenue during the six months ended 30th June, 2021. Sales to Europe increased significantly by 69% because European countries relaxed social distancing controls against COVID-19 during the first half of 2021. Sales to Europe, the US, Asia and other regions accounted for 70%, 11%, 10% and 9% respectively of the revenue of the distribution division during the period under review (2020: 65%, 13%, 12% and 10% respectively). There was no significant change in sales by region. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Lens division

On 24th March, 2021, Arts Opti Lab (Shenzhen) Company Limited[^] (雅視司徠柏光學科技 (深圳) 有限公司), an indirect wholly-owned subsidiary of the Company (the "Purchaser"), Danyang Colorful Optical Glass Company Limited[^] (丹陽市五彩光學眼鏡有限公司) (the "Seller I"), Danyang Zhongjiang Glasses Company Limited[^] (丹陽市中江光學眼鏡有限公司) (the "Seller II"), Danyang Zhongyang Glasses Company Limited[^] (丹陽中洋光學眼鏡有限公司) (the "Seller III"), (Seller I, Seller II and Seller III collectively, the "Sellers") and Stepper & Colors Opti Technology (Jiangsu) Company Limited[^] (五彩司徠柏光學科技 (江蘇) 有限公司) (the "Target Company") entered into an equity transfer agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Sellers have conditionally agreed to sell an aggregate of 55% equity interest in the Target Company at the total consideration of RMB46.5 million (equivalent to approximately HK\$56.5 million) (the "Consideration"), subject to adjustment. The Purchaser and the Sellers further agreed to inject an aggregate of RMB10 million (equivalent to approximately HK\$12.2 million) to the Target Company in cash based on the percentage of their respective equity holding in the Target Company. The Target Company is a company established in Danyang City, Jiangsu Province of the People's Republic of China (the "PRC") which is principally engaged in the design, manufacture, and sales of optical lens. The acquisition was completed on 26th April, 2021. With the acquisition, the

Group will be able to provide a one-stop solution to serve our customers by supplying optical frames together with lens. For details of the acquisition, please refer to the Company's announcements dated 24th March, 2021 and 26th April, 2021.

Revenue for the lens division was HK\$18.6 million and accounted for 4% of the consolidated revenue during the six months ended 30th June, 2021. At the moment, the revenue for the lens division is generated solely from the Asia and the Group plans to gradually expand the lens business to other regions.

[^] *The English translation of the Chinese name of the relevant entity included in this paragraph is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.*

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK\$36.1 million during the period under review (2020: HK\$3.1 million). This was mainly due to a significant increase in debtors balance of HK\$84.9 million during the period under review. The reduction in cash outflow was offset by an increase in creditors' balance of HK\$34.1 million. The net cash position of the Group (being the short-term bank deposit, bank balances and cash less bank borrowings) decreased from HK\$192.8 million as at 31st December, 2020 to HK\$133.4 million as at 30th June, 2021.

Working capital management

In line with the increase in revenue during the period under review, inventory balances and total amount of trade debtors and bills receivable balances increased by 6% and 42% respectively from HK\$129.1 million and HK\$203.3 million as at 31st December, 2020 to HK\$136.5 million and HK\$288.2 million as at 30th June, 2021. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days for the six months ended 30th June, 2020 to 64 days for the period under review. On the other hand, debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) reduced from 120 days for the six months ended 30th June, 2020 to 100 days for the period under review because most of the temporary extension of payment terms to customers due to COVID-19 were cancelled at the end of the 2020. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.2 as at 30th June, 2021 compared to 1.3 as at 31st December, 2020. We expect the current ratio to be stable in the second half of the year.

Gearing position

Despite the loss incurred by the Group during the six months ended 30th June, 2021, the Group's gearing position remained low throughout the period under review. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained low at around 5% as at 30th June, 2021 and around 3% as at 31st December, 2020. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$13.9 million as at 30th June, 2021 (31st December, 2020: HK\$7.8 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 30th June, 2021 and 31st December, 2020 with equity attributable to owners of the Company of HK\$428.9 million and HK\$426.5 million as at 30th June, 2021 and 31st December, 2020 respectively. Increase in net asset value mainly resulted from an appreciation of Renminbi during the period under review and which led to an increase in net asset value of the PRC subsidiaries. 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 30th June, 2021 was HK\$1.11 (31st December, 2020: HK\$1.10).

Contingent liabilities

As at 30th June, 2021, the Group did not have significant contingent liabilities (31st December, 2020: nil).

Charges on the Group's assets

As at 30th June, 2021, the Group's investment properties and leasehold land and buildings pledged as security for the Group's bank borrowings amounted to HK\$17.0 million (31st December, 2020: HK\$19.8 million). Details of bank borrowings are set out in note 11 to the unaudited condensed consolidated financial statements.

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save for the 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. The Group noted that there was potential exposure to the rapid change in the value of the Renminbi yet the range of movement was relatively limited. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

PROSPECTS

Market outlook

Looking forward, it is expected that the global market demand will remain strong for rest of the year because the global economy is gradually recovering from the impact of COVID-19. Moreover, the Group will invest more resources in developing its lens business which the management believe will be an important driver of revenue growth for the Group in near future.

The higher profit margin of the distribution division demonstrates its growing importance to the future development of the Group. The Group will continue to seek business opportunities with prudence so as to increase the contribution of this business either through establishment of our own network or forming joint ventures with strategic distribution partner(s).

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

There are no important events affecting the Group which have occurred after the end of financial period for the six months ended 30th June, 2021 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2021, the Group employed approximately 3,300 (31st December, 2020: 3,200) 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 six months ended 30th June, 2021, 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 separated and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael (“Mr. Ng”) is the founder and chairman of the Group, and Mr. Ng had been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. On 23rd February, 2021, Ms. Ng Yat Shan (“Ms. Ng”) was appointed by the Board as the chief executive officer of the Group. Ms. Ng is responsible for

implementing business strategies and operational management policies formulated by the Board. Following the appointment of Ms. Ng as the chief executive officer, the Company has complied with code provision A.2.1 of the CG Code.

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (the chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The duties of the Audit Committee include (but are not limited to) the review of the interim and annual reports of the Group as well as of various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (the chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of the executive directors, independent non-executive directors and senior management as well as the review and approval of the management's remuneration proposals with reference to the Board's corporate goals and objectives.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (the chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and determining the nomination criteria and nomination procedures of appointment of new and replacement directors, re-election of directors and nomination from shareholders.

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 six months ended 30th June, 2021.

REVIEW OF INTERIM RESULTS

The unaudited interim results and the interim report of the Group for the six months ended 30th June, 2021 have been reviewed by the Audit Committee, which was of the opinion that its preparation had complied with applicable accounting standards and requirements and that adequate disclosures were made.

PUBLICATION OF INTERIM REPORT

The 2021 interim 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-September 2021.

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
Arts Optical International Holdings Limited
Ng Hoi Ying, Michael
Chairman

Hong Kong, 27th August, 2021