



Arts Group

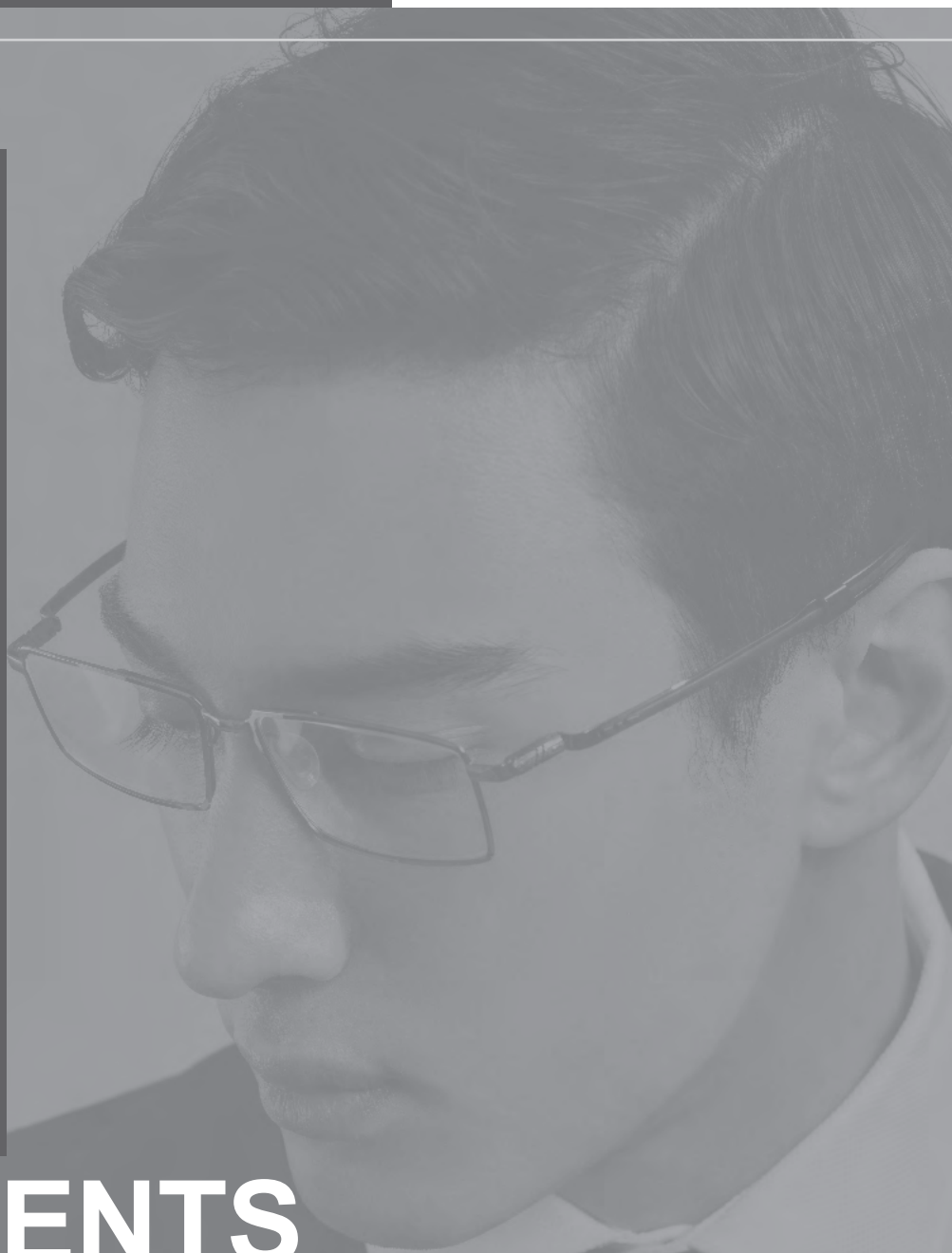
Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1120

2021 Interim Report





CONTENTS

Corporate Information	2
Management Discussion and Analysis	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Condensed Consolidated Statement of Financial Position	10
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Condensed Consolidated Financial Statements	14
Supplementary Information	35

Corporate Information

Board of directors

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

Chief executive officer

NG Yat Shan
(appointed on 23rd February, 2021)

Company secretary

CHOI Pui Yiu

Auditor

RSM Hong Kong

Legal advisers

Stephenson Harwood
Conyers Dill & Pearman

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Website

www.artsgroup.com

Head office and principal place of business in Hong Kong

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal share registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Management Discussion and Analysis

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).

Management Discussion and Analysis

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.*

Management Discussion and Analysis

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).

Management Discussion and Analysis

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 15 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 report.

Management Discussion and Analysis

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.

Ng Hoi Ying, Michael

Chairman

Hong Kong, 27th August, 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2021

	Notes	Unaudited Six months ended 30th June, 2021		2020
		HK\$'000		HK\$'000
Revenue	4	529,073		343,895
Cost of sales		(392,910)		(287,988)
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		(484)		(355)
Loss from operations		(1,083)		(96,974)
Finance costs	5	(732)		(366)
Share of profit of an associate		2,637		2,226
Profit/(loss) before tax		822		(95,114)
Income tax expense	6	(3,355)		(910)
Loss for the period	7	(2,533)		(96,024)
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")		2,896		—
<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		(1,074)		(62)
		5,767		(11,040)
Other comprehensive income/(expense) for the period, net of tax		8,663		(11,040)
Total comprehensive income/(expense) for the period		6,130		(107,064)

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>Note</i>	HK\$'000	HK\$'000
(Loss)/profit for the period attributable to:		
Owners of the Company	(5,609)	(94,651)
Non-controlling interests	3,076	(1,373)
	(2,533)	(96,024)
Total comprehensive income/(expense) for the period attributable to:		
Owners of the Company	2,856	(105,123)
Non-controlling interests	3,274	(1,941)
	6,130	(107,064)
Loss per share	HK cents	HK cents
Basic and diluted	(1.45)	(24.50)
	9	

Condensed Consolidated Statement of Financial Position

At 30th June, 2021

		Unaudited 30th June, 2021 HK\$'000	Audited 31st December, 2020 HK\$'000
	<i>Notes</i>		
Non-current assets			
Investment properties	10	143,000	140,490
Property, plant and equipment	11	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	12	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	19	965	—
Deferred tax assets		4,829	3,287
		446,101	343,444
Current assets			
Inventories		136,518	129,120
Debtors, deposits and prepayments	13	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	14	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	15	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

Condensed Consolidated Statement of Financial Position

At 30th June, 2021

		Unaudited 30th June, 2021 HK\$'000	Audited 31st December, 2020 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Consideration payable	12	1,048	1,048
Lease liabilities		8,211	2,622
Deferred tax liabilities		13,949	7,831
		23,208	11,501
NET ASSETS		512,342	468,932
Capital and reserves			
Share capital	16	38,626	38,626
Reserves		390,289	387,918
Equity attributable to owners of the Company		428,915	426,544
Non-controlling interests		83,427	42,388
TOTAL EQUITY		512,342	468,932

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2021

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Exchange reserve HK\$'000	Financial assets at FVTOCI reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1st January, 2020 (audited)	38,626	118,706	(3,269)	5,318	36,589	–	39,177	661,511	896,658	31,936	928,594
Total comprehensive expense for the period (unaudited)	–	–	–	–	(10,472)	–	–	(94,651)	(105,123)	(1,941)	(107,064)
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries (unaudited)	–	–	–	–	–	–	–	–	–	11,368	11,368
Changes in equity for the period (unaudited)	–	–	–	–	(10,472)	–	–	(94,651)	(105,123)	9,427	(95,696)
At 30th June, 2020 (unaudited)	38,626	118,706	(3,269)	5,318	26,117	–	39,177	566,860	791,535	41,363	832,898
At 1st January, 2021 (audited)	38,626	118,706	(3,269)	5,318	81,201	(2,896)	39,177	149,681	426,544	42,388	468,932
Total comprehensive income/(expense) for the period (unaudited)	–	–	–	–	5,569	2,896	–	(5,609)	2,856	3,274	6,130
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries (unaudited)	–	–	–	–	–	–	–	–	–	9,515	9,515
Acquisition of a subsidiary (note 19) (unaudited)	–	–	–	–	–	–	–	–	–	29,083	29,083
Dividends paid to non-controlling shareholders of a subsidiary (unaudited)	–	–	–	–	–	–	–	–	–	(538)	(538)
Acquisition of additional interests in subsidiaries (unaudited)	–	–	–	(485)	–	–	–	–	(485)	485	–
Capital reduction of a subsidiary (unaudited)	–	–	–	–	–	–	–	–	–	(780)	(780)
Changes in equity for the period (unaudited)	–	–	–	(485)	5,569	2,896	–	(5,609)	2,371	41,039	43,410
At 30th June, 2021 (unaudited)	38,626	118,706	(3,269)	4,833	86,770	–	39,177	144,072	428,915	83,427	512,342

Notes:

- Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.
- Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2021

	Unaudited	
	Six months ended	
	30th June,	
	2021	2020
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(36,126)	(3,130)
Acquisition of a subsidiary	(28,271)	—
Proceed from disposal of equity investment at FVTOCI	665	—
Proceed from partial disposal of investment in an associate	12,408	—
Purchase of property, plant and equipment	(11,688)	(34,768)
Proceeds from disposal of property, plant and equipment	154	71
Interest received	146	138
Purchase of equity investment at FVTOCI	—	(2,711)
Purchase of equity investment at FVTPL	—	(12,626)
Placement of short-term bank deposit	(1,180)	—
Repayment of consideration payable	(449)	—
Deposits paid for acquisition of property, plant and equipment	(8,868)	(2,938)
NET CASH USED IN INVESTING ACTIVITIES	(37,083)	(52,834)
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries	8,890	11,368
Cash dividends paid to non-controlling shareholders of a subsidiary	(538)	—
Payments to non-controlling shareholders in respect of capital reduction of a subsidiary	(385)	—
New bank borrowings raised	11,322	—
Interest paid on bank borrowings	(283)	(350)
Interest paid on lease liabilities	(449)	(16)
Repayments of bank borrowings	(14,151)	(2,734)
Repayments of lease liabilities	(2,180)	(534)
NET CASH GENERATED FROM FINANCING ACTIVITIES	2,226	7,734
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,983)	(48,230)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	212,563	241,640
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7,572	(4,866)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	149,152	188,544

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. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group’s financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

3. FAIR VALUE MEASUREMENTS (continued)

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value of the carrying amount is a reasonable approximation of fair value.

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurements as at 30th June, 2021 (unaudited)		
	Level 1 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:			
Financial assets			
Financial asset at FVTPL — Listed equity security	11,000	—	11,000
Contingent consideration receivable	—	965	965
	11,000	965	11,965
Investment properties			
Commercial units — Hong Kong	—	143,000	143,000
Total	11,000	143,965	154,965
Fair value measurements as at 31st December, 2020 (audited)			
Description	Level 1 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:			
Financial assets			
Derivative — Put option	—	1,573	1,573
Financial asset at FVTPL — Listed equity security	8,875	—	8,875
Financial asset at FVTOCI — Unlisted equity security	—	48	48
	8,875	1,621	10,496
Investment properties			
Commercial units — Hong Kong	—	140,490	140,490
Total	8,875	142,111	150,986
Financial liabilities			
Derivative — Call option	—	(4,261)	(4,261)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

3. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3 (unaudited):

Assets

Description	Derivative put option HK\$'000	Unlisted equity security HK\$'000	Contingent consideration receivable HK\$'000	Investment properties HK\$'000	2021 Total HK\$'000
At 1st January, 2021	1,573	48	–	140,490	142,111
Total gains or losses recognised in profit or loss (#)	(1,573)	–	–	2,510	937
in other comprehensive income	–	2,896	–	–	2,896
Initial recognition	–	–	965	–	965
Disposal	–	(2,994)	–	–	(2,994)
Exchange realignment	–	50	–	–	50
At 30th June, 2021	–	–	965	143,000	143,965
(#) Include gains or losses for assets held at end of reporting period	–	–	–	2,510	2,510

Assets

Description	Derivative put option HK\$'000	Unlisted equity security HK\$'000	Investment properties HK\$'000	2020 Total HK\$'000
At 1st January, 2020	288	–	171,920	172,208
Total gains or losses recognised in profit or loss (#)	–	–	(19,630)	(19,630)
Initial recognition	–	2,711	–	2,711
At 30th June, 2020	288	2,711	152,290	155,289
(#) Include gains or losses for assets held at end of reporting period	–	–	(19,630)	(19,630)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

3. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3 (unaudited): (continued)

Liabilities

Description	2021 Derivative call option HK\$'000
At 1st January, 2021	(4,261)
Total gains or losses recognised in profit or loss (#)	4,261
At 30th June, 2021	—
(#) Include gains or losses for liabilities held at end of reporting period	—

Liabilities

Description	2020 Derivative call option HK\$'000
At 1st January, 2020 and 30th June, 2020	(7,246)

The total gains or losses recognised in other comprehensive income and presented in fair value change of equity investment at FVTOCI in the condensed consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those of assets/(liabilities) held at end of reporting period are presented in other gains and losses in the condensed consolidated statement of profit or loss and other comprehensive income for both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

3. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30th June, 2021:

The Group's chief financial officer (the "CFO") is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The CFO reports directly to the board of directors of the Company (the "Board") for these fair value measurements. Discussions of valuation processes and results are held between the CFO and the Board at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

- reversion yield (estimated based on the capitalisation of rental income potential, nature of the property and prevailing market condition);
- monthly market rent (estimated based on time, location and individual factors such as frontage and size, between the comparable and the property);
- volatility of share price (estimated based on the historical share price movement of companies in similar business operation);
- dividend yield (estimated based on historical dividend payment);
- adjusted price-to-sales ratio (estimated based on the historical share price-to-sales of listed entities in similar industries);
- discount for lack of marketability (estimated based on the volatility of share price of listed entities in similar industries);
- discount rate (estimated based on the cost of equity of listed entities in similar industries); and
- probability (estimated based on the probability of achieving the net profit for 31st December, 2021, 2022 and 2023 with best and worst case).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

3. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30th June, 2021: (continued)

Level 3 fair value measurements				Effect on fair value for increase of inputs	Fair value – Assets/(Liabilities) 30th June, 2021	31st December, 2020
Description	Valuation techniques	Unobservable inputs	Range		HK\$'000 (unaudited)	HK\$'000 (audited)
Investment properties	Income capitalisation approach	Reversion yield	2.8% to 3.5% (31st December, 2020: 2.6% to 3.0%)	Decrease	143,000	140,490
		Monthly market rent	Office portion: HK\$28.80 to HK\$29.40 (31st December, 2020: HK\$28.83 to HK\$29.75) per square foot per month on lettable area basis	Increase		
		Car parking space portion: HK\$3,200 to HK\$3,400 (31st December, 2020: HK\$3,200 to HK\$3,400) per car parking space per month				
Put option	Binomial option pricing model	Volatility of share price	N/A (31st December, 2020: 35.6%)	Increase	–	1,573
		Dividend yield	N/A (31st December, 2020: 4.0%)	Increase		
Call option	Binomial option pricing model	Volatility of share price	N/A (31st December, 2020: 40.0%)	Increase	–	(4,261)
		Dividend yield	N/A (31st December, 2020: 4.0%)	Decrease		
Financial asset at FVOCI	Market approach	Adjusted price-to-sales ratio	N/A (31st December, 2020: 0.92)	Increase	–	48
		Discount for lack of marketability	N/A (31st December, 2020: 35.95%)	Decrease		
Contingent consideration receivable	Probability-weighted payment approach	Discount rate	13.7% (31st December, 2020: N/A)	Decrease	965	–
		Probability	10% (31st December, 2020: N/A)	Increase		

There were no changes in the valuation techniques used.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

4. 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 partial disposal of 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 HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Total HK\$'000
Revenue from contracts with customers (Note)					
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
Revenue from external customers	324,785	123,856	62,392	18,040	529,073
Result					
Segment profit	9,105	17	3,425	1,153	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					2,637
Profit before tax					822

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

4. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Total HK\$'000
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	196,488	99,274	39,068	9,065	343,895
Result					
Segment loss	(17,822)	(9,264)	(4,897)	(433)	(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					2,226
Loss before tax					(95,114)

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

5. FINANCE COSTS

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

6. INCOME TAX EXPENSE

	Six months ended	
	30th June,	
	2021	2020
	HK\$'000	HK\$'000
	(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
	2,641	548
Under/(over)provision in respect of prior period:		
Hong Kong Profits Tax	409	364
PRC Enterprise Income Tax	305	(2)
	714	362
	3,355	910

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

7. 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
	(826)	(1,462)
Net gain on disposal of property, plant and equipment (included in other gains and losses)	–	(5)
Gain on partial disposal of 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) (Note)	(13,518)	2,053
Net foreign exchange losses/(gains) (included in other gains and losses)	16,565	(4,819)

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

8. 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.

9. LOSS PER SHARE

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

10. INVESTMENT PROPERTIES

	30th June, 2021 HK\$'000 (unaudited)	31st December, 2020 HK\$'000 (audited)
At 1st January	140,490	171,920
Increase/(decrease) in fair value recognised in profit or loss	2,510	(31,430)
At 30th June/31st December	143,000	140,490

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

In determining the fair value of investment properties, it is the Group's policy to engage an independent firm of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

On 30th June, 2021 and 31st December, 2020, independent valuations were undertaken by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

The valuations have been arrived at using income capitalisation approach. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. There has been no change from the valuation technique used in the prior period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2021, the Group acquired property, plant and equipment of approximately HK\$27,753,000 (six months ended 30th June, 2020: HK\$36,280,000).

During the six months ended 30th June, 2021, the Group entered into several new lease agreements for use of factory and office for 2 to 10 years. The Group has recognised an addition of right-of-use assets of HK\$10,774,000 (six months ended 30th June, 2020: HK\$1,193,000) included in additions of property, plant and equipment and lease liabilities of HK\$10,774,000 (six months ended 30th June, 2020: HK\$1,193,000) respectively.

12. INVESTMENT IN AN ASSOCIATE

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of EUR787,500 (equivalent to approximately HK\$6,941,000) and reinvestment of dividend. The transaction was completed on 10th April, 2019. Up to 30th June, 2021, the Group has paid EUR677,250 (equivalent to approximately HK\$6,002,000) (31st December, 2020: EUR630,000 (equivalent to approximately HK\$5,553,000)) to the Vendor and the remaining consideration of EUR110,250 (equivalent to approximately HK\$1,048,000) will be settled on 31st December, 2022 and 31st January, 2025 pursuant to the share purchase agreement.

In addition, on 27th March, 2019, the Group entered into an option agreement with an independent third party ("Buyer"), pursuant to which the Buyer and the Group granted each other reciprocal call and put options in respect of 12.5% of the issued share capital of the Group's associate, the exercise price of the option ranges from EUR1,000,000 (equivalent to approximately HK\$8,863,000) to EUR1,562,500 (equivalent to approximately HK\$13,848,000). The Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 30th September, 2022. The Buyer has exercised the call option on 31st March, 2021, the exercise price was EUR1,320,000 (equivalent to approximately HK\$12,408,000) and the transaction was completed on 26th April, 2021. After the transaction, the Group holds 45% of the issued share capital of the associate.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

13. 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, 2021 HK\$'000 (unaudited)	31st December, 2020 HK\$'000 (audited)
0 – 90 days	232,922	173,844
91 – 180 days	51,892	25,824
More than 180 days	2,942	3,219
	287,756	202,887

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.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30th June, 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2020.

During the six months ended 30th June, 2021, the Group reversed the impairment allowance of HK\$276,000 (six months ended 30th June, 2020: provided the impairment allowance of HK\$2,929,000), in particular, a specific loss allowance of HK\$38,000 (six months ended 30th June, 2020: HK\$497,000) has been made to individual debtors where recoverability is considered to be remote.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

13. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Trade debtors due from the associate, joint venture and non-controlling shareholder of a subsidiary

As at 30th June, 2021, included in the Group's trade debtors is an amount due from the Group's associate of HK\$31,221,000 (31st December, 2020: HK\$18,536,000) net of allowance for credit losses of HK\$346,000 (31st December, 2020: HK\$206,000) and an amount due from the Group's joint venture of nil (31st December, 2020: HK\$38,000) net of allowance for credit losses of HK\$40,000 (31st December, 2020: HK\$2,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. As at 30th June, 2021, the amounts outstanding are unsecured with carrying amount of HK\$4,469,000 (31st December, 2020: HK\$1,783,000) which are past due balances, HK\$2,102,000 (31st December, 2020: HK\$90,000) has been past due 90 days or more and is not considered as in default. As at 30th June, 2021, an impairment loss of HK\$386,000 (31st December, 2020: HK\$208,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

14. CREDITORS AND ACCRUED CHARGES

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

14. CREDITORS AND ACCRUED CHARGES (continued)

Trade creditor due to the associate

As at 30th June, 2021, included in the Group's trade creditors is an amount due to the Group's associate of HK\$188,000 (31st December, 2020: HK\$304,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

15. BANK BORROWINGS

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

The bank borrowings are repayable as follows (Note):

	30th June, 2021 HK\$'000 (unaudited)	31st December, 2020 HK\$'000 (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	5,281	8,254
	16,951	19,780
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(16,951)	(19,780)
Amounts due after one year shown under non-current liabilities	—	—

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%.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

16. SHARE CAPITAL

	Number of shares		Nominal value	
	30th June, 2021	31st December, 2020	30th June, 2021	31st December, 2020
	(unaudited)	(audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of period	1,000,000,000	1,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning and end of period	386,263,374	386,263,374	38,626	38,626

17. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	30th June, 2021	31st December, 2020
	HK\$'000 (unaudited)	HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— set up cost of investment in subsidiaries	121,513	123,961
— buildings under construction	1,489	7,980
— plant and machinery	1,701	351
— furniture, fixture and office equipment	34	29
	124,737	132,321

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

18. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended	
	30th June,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales of prescription frames and sunglasses to:		
An associate	28,282	21,239
A non-controlling shareholder of a subsidiary	84	526
	28,366	21,765
Purchase of prescription frames, sunglasses and raw materials from an associate	472	330

The directors of the Company (the "Directors") are of the opinion that the above transactions with the associate, joint venture and non-controlling shareholder of a subsidiary were conducted in the usual course of business.

Other than the above, the details of trade debtors from and trade creditor to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 13 and 14 respectively. No guarantee has been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

During the six months ended 30th June, 2021, the Group entered into a new two-year lease agreement with a company which is controlled by a director of the Company. The Group has recognised additions of right-of-use assets of HK\$2,617,000 and lease liabilities of HK\$2,617,000 respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

18. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group:

	Six months ended 30th June, 2021		2020
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Short term benefits	6,151		4,589
Post-employment benefits	356		388
	6,507		4,977

The remuneration of Directors and key executives was determined by the remuneration committee of the Company having regard to the performance of individuals and market trends. The shareholders of the Company authorised the remuneration committee to fix the remuneration of the Directors, including independent non-executive directors at the annual general meeting.

19. ACQUISITION OF A SUBSIDIARY

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 RMB46,500,000 (equivalent to approximately HK\$56,542,000) (the "Consideration"), subject to adjustment. The Purchaser and the Sellers further agreed to inject an aggregate of RMB10,000,000 (equivalent to approximately HK\$12,160,000) 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 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. The acquisition has been accounted for as business combination using the acquisition method. For details of the acquisition, please refer to the Company's announcements dated 24th March, 2021 and 26th April, 2021.

[^] 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

19. ACQUISITION OF A SUBSIDIARY (continued)

Consideration

	<u>HK\$'000</u>
Cash consideration	56,542
Less: Contingent consideration arrangement (Note)	<u>(965)</u>
	<u>55,577</u>

Note: The Sellers, irrevocably warrant and guarantee to the Purchaser that the average audited net profit for the three years ending on 31st December, 2021, 2022 and 2023 will not be less than RMB7,170,000 (equivalent to approximately HK\$8,718,000) (the "Profit Guarantee"). In case the average audited net profit of the Target Company does not meet the Profit Guarantee, the Sellers are required to return the difference between the consideration and the adjusted consideration to the Purchaser in cash or in shares of the Target Company as set out in the equity transfer agreement. The fair value of such contingent consideration arrangement amounted to HK\$965,000 as at the acquisition date and 30th June, 2021, and presented separately as "contingent consideration receivable" on the condensed consolidated statement of financial position.

Fair values of contingent consideration are determined by CHFT Advisory and Appraisal Limited, an independent firm of qualified professional valuers, at the acquisition date and the end of reporting period. Details of valuations of contingent consideration are set out in note 3(c).

The fair value of the identifiable assets acquired and liabilities recognised at the date of acquisition

	<u>HK\$'000</u>
Current assets	
Inventories	7,675
Other debtors	1,232
Non-current assets	
Plant and equipment	34,120
Intangible assets	26,931
Deferred tax asset	1,403
Non-current liability	
Deferred tax liability	<u>(6,732)</u>
Fair value of net identifiable assets	<u>64,629</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2021

19. ACQUISITION OF A SUBSIDIARY (continued)

Non-controlling interests

The non-controlling interests (45%) in the Target Company recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net identifiable assets of the Target Company and amounted to HK\$29,083,000.

Goodwill arising on acquisition

	<i>HK\$'000</i>
Consideration	55,577
Add: Non-controlling interests	29,083
Less: Fair value of net identifiable assets	<u>(64,629)</u>
Goodwill arising on acquisition	<u>20,031</u>

Net cash outflow on acquisition of a subsidiary

	<i>HK\$'000</i>
Cash consideration	56,542
Less: Consideration payable in the second half of 2021 and included in consideration payable	<u>(28,271)</u>
	<u>28,271</u>

Impact of acquisition on the results of the Group

The goodwill arising on the acquisition of the Target Company is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Included in the loss for the six months ended 30th June, 2021 was a profit of HK\$1,255,000 attributable to the additional business generated by the Target Company. Revenue for the six months ended 30th June, 2021 included HK\$18,258,000 in respect of the Target Company.

20. APPROVAL OF FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board on 27th August, 2021.

Supplementary Information

DIVIDENDS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30th June, 2021.

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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Shares in the Company (Long Positions)

Name of Director/ chief executive	Number of issued ordinary shares held			Total	Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests		
Ng Hoi Ying, Michael	2,856,000	19,656,000	153,600,000 <i>(Note a)</i>	176,112,000	45.59%
Ng Kim Ying	23,126,347	5,000,000	—	28,126,347	7.28%
Ng Yat Shan <i>(Note b)</i>	3,766,000	—	—	3,766,000	0.97%

Supplementary Information

Notes:

- (a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael.
- (b) On 23rd February, 2021, Ms. Ng Yat Shan was appointed by the Board as the chief executive officer of the Group.

Save as disclosed above, as at 30th June, 2021, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th June, 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO recorded that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000 (Note a)	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000 (Note a)	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000 (Note a)	39.77%
Wu Zhihong	Beneficial owner	19,656,000 (Note a)	5.09%
FMR LLC	Held by controlled corporation	26,804,400 (Note b)	6.94%
Fidelity Puritan Trust	Beneficial owner	23,158,400 (Note c)	6.00%
David Michael Webb	Beneficial owner	9,777,000 (Note d)	2.53%
	Held by controlled corporation	21,125,000 (Note e)	5.47%
Preferable Situation Assets Limited	Beneficial owner	21,125,000 (Note e)	5.47%

Supplementary Information

Notes:

- (a) HSBC International Trustee Limited (“HSBCITL”) was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael (“Mr. Ng”) and the beneficiaries of which included Mr. Ng. Under The Arts 2007 Trust, 153,600,000 shares of the Company were held by Ratagan International Company Limited (“Ratagan”). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL. According to an individual substantial shareholder notice filed by Mr. Ng on 17th January, 2020, as at 15th January, 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 17th January, 2020), 19,656,000 shares of the Company were held directly by his wife, Ms. Wu Zhihong.
- (b) According to a corporate substantial shareholder notice filed by FMR LLC on 9th June, 2021 (with the date of the relevant event as set out in the corporate substantial shareholder notice being on 4th June, 2021), FMR LLC held 26,804,400 shares of the Company indirectly through Fidelity Management & Research Company LLC, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 26,804,400 shares of the Company held by Fidelity Management & Research Company LLC, 3,105,970 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 3,250,000 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 100% equity interest in Bay Street Holdings LLC. Bay Street Holdings LLC owns 18% equity interest in 438A Bay Street Holdings LP, which owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which in turn owns 100% equity interest in Fidelity Investments Canada ULC.
- (c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 28th January, 2019, as at 23rd January, 2019 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 28th January, 2019), 23,158,400 shares of the Company were held directly by Fidelity Puritan Trust.
- (d) According to an individual substantial shareholder notice filed by Mr. David Michael Webb (“Mr. Webb”) on 3rd April, 2020, as at 31st March, 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 3rd April, 2020), 9,777,000 shares of the Company were held directly by Mr. Webb.
- (e) These shares were directly held by Preferable Situation Assets Limited (“PSAL”). Mr. Webb was deemed to be interested in the 21,125,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 30th June, 2021.

Supplementary Information

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 Listing Rules 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. The Group's interim report comprising its unaudited condensed consolidated financial statements for the six months ended 30th June, 2021 has 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.

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.