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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINAL RESULTS

The board of directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2021 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS	2021	2020
Revenue	HK\$1,152,941,000	HK\$742,618,000
Profit/(loss) attributable to owners of the Company	HK\$20,700,000	HK\$(511,830,000)
Profit/(loss) per share	5.36 HK cents	(132.51) HK cents
Final dividend per share	Nil	Nil

* *For identification purpose only*

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

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	1,152,941	742,618
Cost of sales		(849,378)	(580,411)
Gross profit		303,563	162,207
Other income	4	22,114	28,478
Other gains and losses	5	(10,965)	(62,368)
Impairment losses	7	(557)	(343,384)
Distribution and selling expenses		(38,150)	(28,007)
Administrative expenses		(246,492)	(272,496)
Other expenses		(1,132)	(704)
Profit/(loss) from operations		28,381	(516,274)
Finance costs	8	(1,470)	(962)
Share of profit of an associate		5,477	4,937
Profit/(loss) before tax		32,388	(512,299)
Income tax expense	9	(6,501)	(556)
Profit/(loss) for the year	10	25,887	(512,855)
Other comprehensive income 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	(2,896)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		7,246	41,535
Exchange differences arising on translation of an associate		(3,452)	3,520
Realisation of exchange reserve upon deregistration of a subsidiary		–	(70)
Realisation of exchange reserve upon partial disposal of investment in an associate		501	–
		4,295	44,985
Other comprehensive income for the year, net of tax		7,191	42,089
Total comprehensive income/(expense) for the year		33,078	(470,766)

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit/(loss) for the year attributable to:			
Owners of the Company		20,700	(511,830)
Non-controlling interests		5,187	(1,025)
		<u>25,887</u>	<u>(512,855)</u>
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		27,574	(470,114)
Non-controlling interests		5,504	(652)
		<u>33,078</u>	<u>(470,766)</u>
		<i>HK cents</i>	<i>HK cents</i>
Profit/(loss) per share			
Basic and diluted	12	<u>5.36</u>	<u>(132.51)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Non-current assets			
Investment properties		142,400	140,490
Property, plant and equipment		203,400	101,566
Deposits paid for acquisition of property, plant and equipment		1,931	28,130
Intangible assets		28,617	5,490
Goodwill		28,331	8,260
Investment in an associate		37,303	45,725
Investment in a joint venture		–	–
Equity investment at FVTOCI		–	48
Equity investment at fair value through profit or loss (“FVTPL”)		13,875	8,875
Contingent consideration receivable		965	–
Derivative financial instrument		–	1,573
Deferred tax assets		5,901	3,287
		<u>462,723</u>	<u>343,444</u>
Current assets			
Inventories		179,232	129,120
Debtors, deposits and prepayments	13	339,242	228,405
Tax recoverable		53	845
Short-term bank deposits		4,623	–
Bank balances and cash		136,956	212,563
		<u>660,106</u>	<u>570,933</u>
Current liabilities			
Creditors and accrued charges	14	460,877	390,020
Contract liabilities		9,206	5,910
Refund liabilities		6,555	4,455
Consideration payable		417	449
Lease liabilities		4,243	1,039
Bank borrowings	15	66,573	19,780
Derivative financial instrument		–	4,261
Tax liabilities		9,590	8,030
		<u>557,461</u>	<u>433,944</u>
Net current assets		<u>102,645</u>	<u>136,989</u>
Total assets less current liabilities		<u>565,368</u>	<u>480,433</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities		
Consideration payable	556	1,048
Lease liabilities	8,563	2,622
Deferred tax liabilities	15,917	7,831
	<u>25,036</u>	<u>11,501</u>
NET ASSETS	<u>540,332</u>	<u>468,932</u>
Capital and reserves		
Share capital	38,626	38,626
Reserves	415,007	387,918
	<u>453,633</u>	<u>426,544</u>
Equity attributable to owners of the Company	453,633	426,544
Non-controlling interests	86,699	42,388
	<u>540,332</u>	<u>468,932</u>
TOTAL EQUITY	<u>540,332</u>	<u>468,932</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	COVID-19-Related Rent Concessions

In addition, the Group has early applied the Amendments to HKFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021.

Except as described below, the application of the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”).

The amendments do not have an impact on these financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Amendment to HKFRS 16 *COVID-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19 Related Rent Concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has applies the practical expedient to all qualifying COVID-19 Related Rent Concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2021. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

In accordance with the transitional requirements, the 2021 amendment has been applied retrospectively, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 January 2021. The amendments do not have impact on the consolidated financial statements.

3. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines for the year is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15 Revenue from Contracts with Customers		
Disaggregated by major products or service lines		
– Original design manufacturing division	863,537	556,776
– Distribution division	233,696	185,842
– Lens division	55,708	–
	<u>1,152,941</u>	<u>742,618</u>

The Group derives all revenue from the transfer of goods and services at a point in time.

Under the Group's standard contract terms, customers have a right to return within 14 days. The Group uses its accumulated historical experience to estimate the sales return on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A refund liability is recognised when the Group expects to refund some or all of the consideration received from customers.

4. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Compensation from customers	3,149	4,150
Dividend income from equity investment at FVTPL	248	298
Government subsidy	2,230	7,939
Gross rental income from investment properties	2,148	3,145
Interest income on bank deposits	257	232
Product development income	3,254	5,447
Sales of scrap materials	4,482	3,347
Sales of raw materials	2,720	–
Others	3,626	3,920
	<u>22,114</u>	<u>28,478</u>

5. OTHER GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net foreign exchange losses	(24,098)	(30,787)
Net gain/(loss) on disposal of property, plant and equipment	719	(670)
Increase/(decrease) in fair values of investment properties	1,910	(31,430)
Increase/(decrease) in fair value of equity investment at FVTPL	5,000	(3,751)
Net fair values change of derivative financial instruments at exercise date	2,688	–
Net increase in fair values of derivative financial instruments	–	4,270
Gain on partial disposal of investment in an associate	2,731	–
Gain on partial disposal of investment in a joint venture	85	–
	<u>(10,965)</u>	<u>(62,368)</u>

6. 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, dividend income, interest income, property rental income, net foreign exchange 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, impairment losses of intangible assets and property, plant and equipment, gains on partial disposal of investment in an associate and a joint venture, 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.

Information about operating segment profit or loss:

	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>
For the year ended 31 December 2021					
Original design manufacturing division	503,633	251,955	87,422	20,527	863,537
Distribution division	150,784	26,903	26,902	29,107	233,696
Lens division	–	–	55,708	–	55,708
	<u>654,417</u>	<u>278,858</u>	<u>170,032</u>	<u>49,634</u>	<u>1,152,941</u>
Revenue from external customers					
	<u>654,417</u>	<u>278,858</u>	<u>170,032</u>	<u>49,634</u>	<u>1,152,941</u>
Segment profit	<u>34,072</u>	<u>13,866</u>	<u>8,512</u>	<u>4,460</u>	<u>60,910</u>
Unallocated income and gains					15,530
Unallocated corporate expenses and losses					(48,316)
Interest income on bank deposits					257
Finance costs					(1,470)
Share of profit of an associate					5,477
					<u>32,388</u>
Profit before tax					<u><u>32,388</u></u>
	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>
For the year ended 31 December 2020					
Original design manufacturing division	315,644	168,813	63,336	8,983	556,776
Distribution division	113,180	29,667	20,230	22,765	185,842
	<u>428,824</u>	<u>198,480</u>	<u>83,566</u>	<u>31,748</u>	<u>742,618</u>
Revenue from external customers					
	<u>428,824</u>	<u>198,480</u>	<u>83,566</u>	<u>31,748</u>	<u>742,618</u>
Segment (loss)/profit	<u>(10,125)</u>	<u>(14,154)</u>	<u>(3,925)</u>	<u>746</u>	<u>(27,458)</u>
Unallocated income and gains					7,875
Unallocated corporate expenses and losses					(496,923)
Interest income on bank deposits					232
Finance costs					(962)
Share of profit of an associate					4,937
					<u>4,937</u>
Loss before tax					<u><u>(512,299)</u></u>

7. IMPAIRMENT LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Impairment loss recognised on debtors	276	725
Impairment loss recognised on intangible assets	281	1,595
Impairment loss recognised on property, plant and equipment	–	341,064
	<u>557</u>	<u>343,384</u>

8. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank borrowings	736	620
Interest on lease liabilities	734	342
	<u>1,470</u>	<u>962</u>

9. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current year:		
Hong Kong Profits Tax	2,059	162
United Kingdom Corporation Tax	3,163	1,429
France Corporation Tax	276	16
South Africa Corporation Tax	185	109
Deferred taxation	117	(1,505)
	<u>5,800</u>	<u>211</u>
Under/(over) provision in respect of prior year:		
Hong Kong Profits Tax	399	324
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	305	(10)
United Kingdom Corporation Tax	(3)	(4)
South Africa Corporation Tax	–	35
	<u>701</u>	<u>345</u>
	<u>6,501</u>	<u>556</u>

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5% for both years.

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 years.

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 years.

France Corporation Tax is calculated at the applicable rate of 26.5% (2020: 28%) for amounts of taxable profit up to Euro (“EUR”) 500,000 and a corporate tax rate of 26.5% (2020: 31%) for taxable profit above EUR500,000 in accordance with the relevant law and regulations in France for both years.

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 years.

10. PROFIT/(LOSS) FOR THE YEAR

The Group’s profit/(loss) for the year is stated after charging/(crediting) the following:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	4,251	2,196
Impairment loss recognised on debtors	276	725
Impairment loss recognised on intangible assets	281	1,595
Impairment loss recognised on property, plant and equipment	–	341,064
Auditors’ remuneration:		
– Audit service	1,480	1,365
– Non-audit services	658	225
Cost of inventories recognised as an expense	849,378	580,411
Depreciation of property, plant and equipment	15,906	92,759
(Increase)/decrease in fair values of investment properties	(1,910)	31,430
Net fair values change of derivative financial instruments at exercise date	(2,688)	–
Net increase in fair values of derivative financial instruments	–	(4,270)
(Increase)/decrease in fair value of equity investment at FVTPL	(5,000)	3,751
(Write back of)/allowance for inventories (included in cost of sales)	(9,610)	8,831
Operating leases rentals in respect of rented premises	190	486
Direct operating expenses of investment properties that did not generate rental income	722	912
Direct operating expenses of investment properties that generate rental income	658	737
Staff costs:		
Directors’ and chief executive officer’s emoluments	3,600	2,410
Other staff		
– Salaries, bonuses and allowances	381,491	317,017
– Retirement benefit scheme contributions	30,016	11,418
Total staff costs	<u>415,107</u>	<u>330,845</u>

Cost of inventories sold includes staff costs and depreciation of approximately HK\$232,580,000 (2020: HK\$190,254,000) which are included in the amounts disclosed separately above.

11. DIVIDENDS

No dividend in respect of the year ended 31 December 2021 has been proposed by the directors of the Company (2020: nil).

12. PROFIT/(LOSS) PER SHARE

The calculation of the basic profit/(loss) per share is based on the following data:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit/(loss) for the purpose of basic profit/(loss) per share		
– Profit/(loss) for the year attributable to owners of the Company	<u>20,700</u>	<u>(511,830)</u>
	2021 <i>Number of shares</i>	2020 <i>Number of shares</i>
Weighted average number of shares for the purpose of basic profit/(loss) per share	<u>386,263,374</u>	<u>386,263,374</u>

No diluted profit/(loss) per share has been presented as there was no potential ordinary shares in issue during 2021 and 2020.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade debtors from contracts with customers	317,327	210,138
Less: Allowance for credit losses	<u>(5,904)</u>	<u>(7,251)</u>
	311,423	202,887
Bills receivables	147	368
Other debtors, deposits and prepayments	<u>27,672</u>	<u>25,150</u>
Total debtors, deposits and prepayments	<u>339,242</u>	<u>228,405</u>

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 90 days	236,178	173,844
91 – 180 days	69,895	25,824
More than 180 days	5,350	3,219
	<u>311,423</u>	<u>202,887</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 90 days	<u>147</u>	<u>368</u>

14. CREDITORS AND ACCRUED CHARGES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade creditors	155,862	111,836
Other creditors and accrued charges	305,015	278,184
	<u>460,877</u>	<u>390,020</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 60 days	105,142	68,681
61 – 120 days	42,787	34,620
More than 120 days	7,933	8,535
	<u>155,862</u>	<u>111,836</u>

15. BANK BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Secured bank borrowings	14,087	19,780
Guaranteed bank borrowings	52,486	–
	<u>66,573</u>	<u>19,780</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	58,320	5,691
More than one year, but not exceeding two years	5,981	5,835
More than two years, but not exceeding five years	2,272	8,254
	<u>66,573</u>	<u>19,780</u>
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(66,573)</u>	<u>(19,780)</u>
Amounts due after one year shown under non-current liabilities	<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\$10,490,000 (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\$142,400,000 (2020: HK\$140,490,000).

A bank borrowing of HK\$3,597,000 (2020: HK\$4,989,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$27,006,000 (2020: HK\$28,151,000) and carries interest at one month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%.

Guaranteed borrowings from banks, for which the Company and certain of its subsidiaries have provided joint liability corporate and cross guarantee, carry interests at HIBOR or London Interbank Offered Rate plus certain basis points.

DIVIDENDS

The Board did not recommend the payment of a final dividend (2020: nil) for the year ended 31 December 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 9 June 2022 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on 2 June 2022
Closure of register of members	6 June 2022 to 9 June 2022 (both dates inclusive)
Record date	9 June 2022

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in late-April 2022.

BUSINESS REVIEW

Profitability analysis

The Group has recorded a significant increase in consolidated revenue by 55% to HK\$1,152.9 million in the financial year ended 31 December 2021 (2020: HK\$742.6 million). The significant increase in the revenue for the year ended 31 December 2021 was mainly because the world economy has gradually recovered from the adverse impact of COVID-19 and the demand of eyewear products started to rebound to the level prior to the outbreak of COVID-19.

For the year under review, the Group recorded a profit attributable to owners of the Company and a profit per share of HK\$20.7 million and 5.36 HK cents respectively (2020: a loss attributable to owners of the Company and a loss per share of HK\$511.8 million and HK\$1.33 respectively).

The substantial improvement in the Group's profitability was mainly due to the following factors:

- (a) a non-operational impairment loss of HK\$341.1 million for property, plant and equipment was recorded for the year ended 31 December 2020 and no such impairment loss was required for the year ended 31 December 2021;
- (b) the Group also benefited from the positive impact on the profitability arising from economies of scale as the consolidated revenue increased by 55% in the year of 2021 compared with 2020;
- (c) significant reduction in depreciation charges of HK\$76.9 million in the year of 2021 compared with 2020 because of the significant reduction of fixed assets value after the impairment loss mentioned above; and
- (d) continuous efforts in cost reduction, streamlining our operational efficiency and supply chain synergy.

Original design manufacturing (“ODM”) division

Our ODM division continued to be the key revenue contributor and revenue generated from this division contributed to 75% of the consolidated revenue of the Group in 2021 (2020: 75%). Sales to ODM customers increased significantly by 55% from HK\$556.8 million in 2020 to HK\$863.5 million in 2021. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 58%, 29%, 10% and 3% respectively of the revenue of the ODM division in 2021 (2020: 57%, 30%, 11% and 2% respectively). Sales to Europe, the US, Asia and other regions increased by 60%, 49%, 38% and 129% respectively. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2021. Sales of prescription frames, sunglasses and spare parts accounted for 56%, 40% and 4% respectively of revenue of the ODM division in 2021 (2020: 55%, 42% and 3% respectively).

Distribution division

Revenue generated from the distribution division also increased significantly by 26% from HK\$185.8 million in 2020 to HK\$233.7 million in 2021 and accounted for 20% of the consolidated revenue of the Group in 2021 (2020: 25%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, Germany, China and South Africa, and independent distributors in other countries. Sales to Europe, the US, Asia and other regions accounted for 65%, 12%, 11% and 12% respectively of the revenue of the distribution division in 2021 (2020: 61%, 16%, 11% and 12% respectively). Europe was still the biggest market for the distribution division and sales to Europe, Asia and other regions increased by 33%, 33% and 28% respectively. On the other hand, sales to the US decreased by 9% after a strong increase of sale of 30% in 2020. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Lens division

On 24 March 2021, Arts Opti Lab (Shenzhen) Company Limited[^] (雅視光學科技(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), 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 which is principally engaged in the design, manufacture, and sales of optical lens. The acquisition was completed on 26 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 24 March 2021 and 26 April 2021.

As a result of the acquisition, the lens division became a new business segment of the Group for reporting purposes for the year ended 31 December 2021. Revenue for the lens division was HK\$55.7 million and accounted for 5% of the Group’s consolidated revenue for the year ended 31 December 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.

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK\$44.8 million (2020: inflow of HK\$49.4 million). The result in net cash outflow is mainly due to an increase in inventories and trade debtors and bills receivable balances by HK\$50.1 million and HK\$108.3 million respectively at the end of 2021 and which are in line with the sales increase in the year of 2021 compared with 2020. The net cash position of the Group (being the short-term bank deposits, bank balances and cash less bank borrowings) decreased from HK\$192.8 million as at 31 December 2020 to HK\$75.0 million as at 31 December 2021.

Working capital management

In line with the growth in revenue during the period under review, the inventory balance and total amount of trade debtors and bills receivable balances increased by 39% and 53% respectively from HK\$129.1 million and HK\$203.3 million as at 31 December 2020 to HK\$179.2 million and HK\$311.6 million as at 31 December 2021. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased from 81 days in 2020 to 77 days in 2021 because of strong demand of goods delivery at the end of 2021 to meet with the Christmas sales. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) decreased slightly from 100 days in 2020 to 99 days in 2021. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.3 as at 31 December 2020 to 1.2 as at 31 December 2021.

Gearing position

The Group maintained a low gearing position throughout 2021. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) increased slightly from 3% as at 31 December 2020 to 6% as at 31 December 2021. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$15.9 million as at 31 December 2021 (31 December 2020: HK\$7.8 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31 December 2021 and 31 December 2020 with equity attributable to owners of the Company of HK\$453.6 million and HK\$426.5 million as at 31 December 2021 and 31 December 2020 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31 December 2021 was HK\$1.17 (31 December 2020: HK\$1.10).

Contingent liabilities

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

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as 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 of Renminbi after the war taken place between Russia and Ukraine in February 2022. The Group continues to manage foreign exchange risk by closely monitoring the movements of the foreign currency rates and entered into forward contracts whenever appropriate.

PROSPECTS

Although there was a strong rebound in market demand in eyewear products during the year under review, the management anticipates that the global business environment will be very challenging and full of uncertainty in the year of 2022. On one hand, many countries in the world desired eagerly to return to a normal life style by gradually removing all the restrictions on social distance and cross-border travel. On the other hand, many western countries have imposed various sanctions on Russia especially in the oil and energy sector. The costs and stableness of oil and commodities supplies would inevitably be volatile for the year of 2022. The management will closely monitor the materials supply of commodities to ensure the Group's business will not be interrupted.

Going forward, the management will continue to focus on upgrading the infrastructure of e-commerce channels. The higher profit margins of the distribution and lens divisions demonstrate their growing importance in the future development of the Group. The Group will continue to seek business opportunities with prudence so as to increase the contribution of these businesses either through establishment of our own network or forming joint venture with strategic distribution partner(s).

EVENTS AFTER THE REPORTING PERIOD

Discloseable transaction – Construction agreement

On 25 March 2022, Hongjun Optical Manufactory (Yingtang) Company Limited[^] (宏駿眼鏡製造(鷹潭)有限公司), an indirect wholly-owned subsidiary of the Company, entered into a construction agreement with Jiangxi Hanyu Construction Group Company Limited[^] (江西省漢宇建設集團有限公司) (the “Contractor”), pursuant to which the Contractor was appointed as the contractor responsible for the construction and engineering of factory plant, dormitories and ancillary facilities on the piece of land situated at Junhui Industrial Park, Jingqi Road, Zhongtong Town, Yujiang District, Yingtang City, Jiangxi Province[^] (江西省鷹潭市余江區中童鎮經七路駿匯工業園區), at a total consideration of RMB32.7 million (equivalent to approximately HK\$40.2 million) (subject to adjustments, if any). For details, please refer to the Company's announcement dated 25 March 2022.

Save as disclosed, there are no important events affecting the Group which have occurred after the end of financial period for the year ended 31 December 2021 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2021, the Group employed approximately 3,700 (31 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 year ended 31 December 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 23 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 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.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year then ended as set out in the preliminary announcement have been agreed by the Group’s auditor, RSM Hong Kong, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Group’s consolidated financial statements for the year ended 31 December 2021 have been reviewed by the Audit Committee of the Board and audited by RSM Hong Kong.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed shares during the year ended 31 December 2021.

PUBLICATION OF ANNUAL REPORT

The 2021 annual report will be despatched to the shareholders of the Company and will also be available on the Company’s website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited’s HKExnews website at www.hkexnews.hk in late-April 2022.

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.

[^] *The English translation of the Chinese name of the relevant entity included in this announcement 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.*

By Order of the Board
Arts Optical International Holdings Limited
Ng Hoi Ying, Michael
Chairman

Hong Kong, 29 March 2022