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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

INTERIM RESULTS

The board of directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2022 together with comparative figures for the corresponding period in 2021.

FINANCIAL HIGHLIGHTS

	Six months ended	
	30.6.2022	30.6.2021
Revenue	HK\$580,057,000	HK\$529,073,000
Profit/(loss) attributable to owners of the Company	HK\$28,466,000	HK\$(5,609,000)
Profit/(loss) per share	7.37 HK cents	(1.45) HK cents
Interim dividend per share	Nil	Nil

* *For identification purpose only*

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

For the six months ended 30 June 2022

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2022	2021
		HK\$'000	HK\$'000
Revenue	3	580,057	529,073
Cost of sales		(419,446)	(392,910)
Gross profit		160,611	136,163
Other income		16,975	6,410
Other gains and losses		9,456	(6,511)
Reversal of impairment losses		451	276
Distribution and selling expenses		(21,771)	(20,331)
Administrative expenses		(132,345)	(116,606)
Other expenses		(673)	(484)
Profit/(loss) from operations		32,704	(1,083)
Finance costs	4	(1,049)	(732)
Share of profit of an associate		2,362	2,637
Profit before tax		34,017	822
Income tax expense	5	(3,004)	(3,355)
Profit/(loss) for the period	6	31,013	(2,533)
Other comprehensive income/(expense) after tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		259	–
Fair value change of equity investment at fair value through other comprehensive income (“FVTOCI”)		–	2,896
		259	2,896
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(21,662)	6,841
Exchange differences arising on translation of an associate		(3,145)	(1,074)
		(24,807)	5,767
Other comprehensive (expense)/income for the period, net of tax		(24,548)	8,663
Total comprehensive income for the period		6,465	6,130

		Unaudited	
		Six months ended 30 June	
		2022	2021
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period attributable to:			
	Owners of the Company	28,466	(5,609)
	Non-controlling interests	2,547	3,076
		<u>31,013</u>	<u>(2,533)</u>
Total comprehensive income for the period attributable to:			
	Owners of the Company	6,401	2,856
	Non-controlling interests	64	3,274
		<u>6,465</u>	<u>6,130</u>
		<i>HK cents</i>	<i>HK cents</i>
Profit/(loss) per share			
	Basic and diluted	7.37	(1.45)
		<u>8</u>	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Non-current assets			
Investment properties		86,910	142,400
Property, plant and equipment		222,817	203,400
Deposits paid for acquisition of property, plant and equipment		19,770	1,931
Intangible assets		25,526	28,617
Goodwill		26,890	28,331
Investment in an associate		36,186	37,303
Investment in a joint venture		–	–
Equity investment at FVTOCI		3,071	–
Equity investment at fair value through profit or loss (“FVTPL”)		–	13,875
Contingent consideration receivable		965	965
Deferred tax assets		6,015	5,901
		428,150	462,723
Current assets			
Inventories		151,487	179,232
Debtors, deposits and prepayments	9	324,019	339,242
Tax recoverable		–	53
Short-term bank deposits		1,180	4,623
Bank balances and cash		144,493	136,956
		621,179	660,106
Assets classified as held for sale	10	30,302	–
		651,481	660,106
Current liabilities			
Creditors and accrued charges	11	440,694	460,877
Contract liabilities		7,763	9,206
Refund liabilities		6,750	6,555
Consideration payable		417	417
Lease liabilities		2,710	4,243
Bank borrowings	12	41,189	66,573
Tax liabilities		10,839	9,590
		510,362	557,461
Net current assets		141,119	102,645
Total assets less current liabilities		569,269	565,368

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Consideration payable	556	556
Lease liabilities	7,110	8,563
Deferred tax liabilities	16,806	15,917
	<u>24,472</u>	<u>25,036</u>
NET ASSETS	<u>544,797</u>	<u>540,332</u>
Capital and reserves		
Share capital	38,626	38,626
Reserves	421,408	415,007
	<u>460,034</u>	<u>453,633</u>
Equity attributable to owners of the Company	460,034	453,633
Non-controlling interests	84,763	86,699
	<u>544,797</u>	<u>540,332</u>
TOTAL EQUITY	<u>544,797</u>	<u>540,332</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2021 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 31 December 2021.

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

The accounting policies applied in the condensed financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2021. 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 1 January 2022 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 1 January 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors’ emoluments, interest income, property rental income, net foreign exchange gains or losses, increase in fair values of investment properties, increase 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, loss on disposal of equity investment at FVTPL, 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 30 June 2022 (unaudited)

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from contracts with customers					
<i>(Note)</i>					
Original design manufacturing division	254,644	104,128	50,686	8,790	418,248
Distribution division	81,542	11,802	14,733	18,951	127,028
Lens division	–	–	34,781	–	34,781
	<u>336,186</u>	<u>115,930</u>	<u>100,200</u>	<u>27,741</u>	<u>580,057</u>
Result					
Segment profit	<u>19,074</u>	<u>9,864</u>	<u>4,882</u>	<u>2,260</u>	<u>36,080</u>
Unallocated income and gains					12,186
Unallocated corporate expenses and losses					(15,772)
Interest income on bank deposits					210
Finance costs					(1,049)
Share of profit of an associate					<u>2,362</u>
Profit before tax					<u><u>34,017</u></u>

For the six months ended 30 June 2021 (unaudited)

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

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

4. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interests on bank borrowings	703	283
Interests on lease liabilities	346	449
	<u>1,049</u>	<u>732</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)
Current period:		
Hong Kong Profits Tax	729	307
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	–	760
United Kingdom Corporation Tax	1,197	1,540
France Corporation Tax	137	597
South Africa Corporation Tax	109	186
Italy Corporation Tax	26	–
Vietnam Corporation Tax	70	–
Deferred taxation	724	(749)
	<u>2,992</u>	<u>2,641</u>
Underprovision in respect of prior period:		
Hong Kong Profits Tax	–	409
PRC Enterprise Income Tax	12	305
	<u>12</u>	<u>714</u>
	<u><u>3,004</u></u>	<u><u>3,355</u></u>

Under the two-tiered Profits Tax rate regime, the first HK\$2 million of profits of 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% for both periods. 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%.

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 25% (six months ended 30 June 2021: 26.5%) in accordance with the relevant law and regulations in France for the period.

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.

Italy Corporation Tax is calculated at the applicable rate of 27.9% (of which 24% for the corporate income tax and 3.9% for the regional production tax) in accordance with the relevant law and regulations in Italy for the period.

Vietnam Corporation Tax is calculated at the applicable rate of 20% in accordance with the relevant law and regulations in Vietnam for the period.

6. PROFIT/(LOSS) FOR THE PERIOD

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

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Amortisation of intangible assets (included in distribution and selling expenses)	2,391	1,114
Reversal of impairment losses recognised on debtors	(451)	(276)
Cost of inventories recognised as an expense	419,446	392,910
Depreciation of property, plant and equipment	13,626	5,413
Increase in fair values of investment properties	(1,772)	(2,510)
Gross rental income from investment properties (included in other income)	(1,912)	(1,160)
Less: Direct expenses of investment properties that generated rental income during the period	345	334
	<u>(1,567)</u>	<u>(826)</u>
Net gain on disposal of property, plant and equipment (included in other gains and losses)	(1,389)	–
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 in fair value of equity investment at FVTPL	–	(2,125)
Allowance for/(write back of) inventories, net (included in cost of sales) (<i>Note</i>)	10,340	(13,518)
Net foreign exchange (gains)/losses (included in other gains and losses)	<u>(7,073)</u>	<u>16,565</u>

Note: Because of the change in the market conditions of the Group's products during the six months ended 30 June 2021, 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 was reversed during the six months ended 30 June 2021.

7. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 and 30 June 2021.

During the six months ended 30 June 2022 and 30 June 2021, the Board did not recommend the payment of a final dividend for the year ended 31 December 2021 and 31 December 2020, respectively.

8. PROFIT/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit/(loss) for the purpose of basic profit/(loss) per share		
– Profit/(loss) for the period attributable to owners of the Company	<u>28,466</u>	<u>(5,609)</u>
	2022	2021
	Number of	Number of
	shares	shares
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 for both periods.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$301,817,000 (31 December 2021: HK\$311,423,000). 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:

	30 June	31 December
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 90 days	219,877	236,178
91 – 180 days	69,049	69,895
More than 180 days	<u>12,891</u>	<u>5,350</u>
	<u>301,817</u>	<u>311,423</u>

As at 30 June 2022, total bills receivable amounting to HK\$268,000 (31 December 2021: HK\$147,000) 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 receivable by the Group are with a maturity period of less than one year.

10. ASSETS CLASSIFIED AS HELD FOR SALE

Sin Dak Industrial Limited, a wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement and a formal agreement for sale and purchase with Jointwill Corporation Limited on 13 April 2022 and 6 May 2022 respectively in relation to the disposal of the land and buildings occupied by the Group as its office and warehouse in Hong Kong (the “Disposal”) at a consideration of HK\$90,600,000, details of which are disclosed in the Company’s announcement dated 13 April 2022 and circular dated 25 July 2022. The assets attributable to the Disposal that are expected to be sold within twelve months from 30 June 2022, have been classified as held for sale and are separately presented in the condensed consolidated statement of financial position. The net proceed of the Disposal is expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. During the six months ended 30 June 2022, the land and buildings with carrying amounts of HK\$30,302,000 were transferred from property, plant and equipment to assets classified as held for sale.

11. CREDITORS AND ACCRUED CHARGES

	30 June 2022 HK\$’000 (unaudited)	31 December 2021 HK\$’000 (audited)
Trade creditors	124,697	155,862
Other creditors and accrued charges	315,997	305,015
	<u>440,694</u>	<u>460,877</u>

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

	30 June 2022 HK\$’000 (unaudited)	31 December 2021 HK\$’000 (audited)
0 – 60 days	107,564	105,142
61 – 120 days	13,535	42,787
More than 120 days	3,598	7,933
	<u>124,697</u>	<u>155,862</u>

12. BANK BORROWINGS

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Secured bank borrowings	11,189	14,087
Guaranteed bank borrowings	30,000	52,486
	41,189	66,573

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

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Within one year	35,902	58,320
More than one year, but not exceeding two years	5,287	5,981
More than two years, but not exceeding five years	–	2,272
	41,189	66,573
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(41,189)	(66,573)
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\$8,296,000 (31 December 2021: HK\$10,490,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties and leasehold land and buildings with carrying amount of HK\$143,800,000 (31 December 2021: investment properties with carrying amount of HK\$142,400,000).

A bank borrowing of HK\$2,893,000 (31 December 2021: HK\$3,597,000) is secured by the Group's assets classified as held for sale with carrying amount of HK\$26,719,000 (31 December 2021: leasehold land and buildings with carrying amount of HK\$27,006,000) 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 has resolved not to declare any interim dividend (2021: nil) for the six months ended 30 June 2022.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 10% to HK\$580.1 million (2021: HK\$529.1 million) for the six months ended 30 June 2022. During the period under review, the Group recorded a profit attributable to owners of the Company of HK\$28.5 million and a profit per share of 7.37 HK cents respectively (2021: a loss attributable to owners of the Company of HK\$5.6 million and a loss per share of 1.45 HK cents respectively).

The Group's turnover and profitability improved as a result of the combined effects of the following factors:

- (a) increase in total revenue of the Group in the first half of 2022 (unaudited) as compared to the corresponding period in 2021;
- (b) improvement in gross profit margin mainly resulted from the continuous improvement in operation efficiency and supply chain synergy;
- (c) positive impact of economies of scale resulting from the Group's increase in revenue and production volume in the first half of 2022; and
- (d) as majority of the Group's liabilities were dominated in Renminbi, the Group recorded a significant gain on exchange rate difference of HK\$7.1 million which mainly resulted from the weaken of Renminbi exchange rate during the six months ended 30 June 2022.

Original design manufacturing ("ODM") division

Revenue generated by the ODM division contributed 72% to the consolidated revenue of the Group in the period under review (2021: 76%). Sales to ODM customers increased by 4% from HK\$402.3 million in the first six months of 2021 to HK\$418.3 million in the first six months of 2022. The moderate growth in revenue was considered healthy after the COVID-19 pandemic became part of the normal life. Geographically, sales to Europe, the United States (the "US"), Asia and other regions accounted for 61%, 25%, 12% and 2% respectively (2021: 62%, 28%, 8% and 2% 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 46%, 49% and 5% of the revenue generated by the ODM division respectively during the period under review (2021: 58%, 39% and 3% respectively).

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, South Africa, China, Germany and Italy, and to independent distributors in other countries. Revenue for the distribution division increased by 17% to HK\$127.0 million (2021: HK\$108.2 million) and accounted for 22% (2021: 20%) of the consolidated revenue during the six months ended 30 June 2022. Sales to Europe, the US, Asia and other regions accounted for 64%, 9%, 12% and 15% respectively of the revenue of the distribution division during the period under review (2021: 70%, 11%, 10% and 9% respectively). Sales to other regions increased significantly by 98% as compared to the same period last year. The reason behind was that most of the countries included in other regions were developing countries and their recovery from the negative impact of COVID-19 commenced later than Europe and the US whose economies rebounded in early 2021. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Lens division

Revenue for the lens division was HK\$34.8 million (2021: HK\$18.6 million) and accounted for 6% (2021: 4%) of the consolidated revenue during the six months ended 30 June 2022. At the moment, the revenue for the lens division is generated solely from Asia and the Group plans to gradually expand its lens business to other regions.

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK\$51.4 million during the period under review (2021: outflow of HK\$36.1 million) and which was mainly resulted from cash flow derived from the net profit for the period under review. During the period under review, the Group entered into an agreement to dispose a property located in Hong Kong and disposed an entire equity investment in a listed company in Hong Kong for the purpose of strengthen the Group's cash flow. The initial deposit for the property to be sold and proceed from selling of the listed shares were HK\$9.1 million and HK\$13.1 million respectively. The net cash position of the Group (being the short-term bank deposits, bank balances and cash less bank borrowings) increased from HK\$75.0 million as at 31 December 2021 to HK\$104.5 million as at 30 June 2022.

Working capital management

In contrast to the growth in revenue during period under review, inventory balance and total amount of trade debtors and bills receivable balances decreased by 15% and 3% respectively from HK\$179.2 million and HK\$311.6 million as at 31 December 2021 to HK\$151.5 million and HK\$302.1 million as at 30 June 2022. The reason behind was that the trend of revenue growth driven by economic recovery from COVID-19 has been diminishing in early 2022. Group's revenue actually reduced by 7% as compared to the period under review with the second half of 2021. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) reduced from 100 days for the six months ended 30 June 2021 to 95 days for the period under review. There was no sign of deterioration in collecting payments from trade debtors as compared to the corresponding period in last year. On the other hand, inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 64 days for the six months

ended 30 June 2021 to 66 days for the period under review because there were strong market demands after the global economy recovered from the adverse impact of COVID-19 in the same period last year. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.3 as at 30 June 2022 compared to 1.2 as at 31 December 2021. We expect the current ratio to increase in the second half of the year after collection of sale proceed from the disposal of property.

Gearing position

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 30 June 2022 and around 6% as at 31 December 2021. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$16.8 million as at 30 June 2022 (31 December 2021: HK\$15.9 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 30 June 2022 and 31 December 2021 with equity attributable to owners of the Company of HK\$460.0 million and HK\$453.6 million as at 30 June 2022 and 31 December 2021 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 30 June 2022 was HK\$1.19 (31 December 2021: HK\$1.17).

Contingent liabilities

As at 30 June 2022, the Group did not have significant contingent liabilities (31 December 2021: nil).

Charges on the Group's assets

As at 30 June 2022, the Group's investment properties, leasehold land and buildings as well as assets classified as held for sale pledged as security for the Group's bank borrowings amounted to HK\$41.2 million (31 December 2021: HK\$66.6 million). Details of bank borrowings are set out in note 12.

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both United States dollars and Hong Kong dollars. Save for the above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars or Renminbi. The Group noted that there was potential exposure to the 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

Hong Kong head office relocation

The Group executed a preliminary sale and purchase agreement in relation to the disposal of its former head office located at Units 301, 307 and 308, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the “Disposal”) to Jointwill Corporation Limited in April 2022. The Group relocated its head office to Units A to G, 32nd Floor, King Palace Plaza, 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong on 23 June 2022. The Disposal was completed in July 2022, and the balance of the consideration of the Disposal amounting to HK\$81.5 million was received by the Group in July 2022. For details, please refer to the Company’s announcements dated 13 April 2022 and 22 June 2022, and the Company’s circular dated 25 July 2022.

Market outlook

The global economy faces continued volatility and uncertainty with inflationary pressures and geopolitical tensions in both Europe and Asia. Meanwhile, the resurgence of COVID-19 around the world, especially in China may cause serious disruptions to the global supply chain. As a result, it will be the main task for the Group to maintain a flexible production capacity so that it can swiftly adjust both the scale and location of the production capacity so as to meet the volatile market demands and possible lockdown in particular area of China.

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

Save as disclosed herein, there are no important events affecting the Group which have occurred after the end of financial period for the six months ended 30 June 2022 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group employed approximately 3,600 (31 December 2021: 3,700) 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 contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2022.

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

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

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2022.

REVIEW OF INTERIM RESULTS

The unaudited interim results and the interim report of the Group for the six months ended 30 June 2022 have been reviewed by the Audit Committee, which was of the opinion that its preparation had complied with applicable accounting standards and requirements and that adequate disclosures were made.

PUBLICATION OF INTERIM REPORT

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

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

Hong Kong, 29 August 2022