

20  
22  
INTERIM  
REPORT



*Arts* Group

Arts Optical International Holdings Limited  
(Incorporated in Bermuda with limited liability)  
Stock Code:1120



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## 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

### **Company secretary**

CHOI Pui Yiu

### **Auditor**

RSM Hong Kong  
*Registered Public Interest Entity Auditor*

### **Legal advisers**

Stephenson Harwood  
Conyers Dill & Pearman

### **Registered office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Website**

[www.artsgroup.com](http://www.artsgroup.com)

### **Head office and principal place of business in Hong Kong**

Units A to G, 32nd Floor, King Palace Plaza  
55 King 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  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

### **Principal bankers**

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

## **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 denominated 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).

# 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, 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 position. 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.

# Management Discussion and Analysis

## ***Working capital management***

In contrast to the growth in revenue during the 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).

# Management Discussion and Analysis

## ***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 16 to the unaudited condensed consolidated financial statements.

## ***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 report.

## ***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.

**Ng Hoi Ying, Michael**  
*Chairman*

Hong Kong, 29 August 2022



# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Notes	Unaudited Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
<b>Revenue</b>	4	<b>580,057</b>	529,073
Cost of sales		<b>(419,446)</b>	(392,910)
<b>Gross profit</b>		<b>160,611</b>	136,163
Other income		<b>16,975</b>	6,410
Other gains and losses		<b>9,456</b>	(6,511)
Reversal of impairment losses		<b>451</b>	276
Distribution and selling expenses		<b>(21,771)</b>	(20,331)
Administrative expenses		<b>(132,345)</b>	(116,606)
Other expenses		<b>(673)</b>	(484)
Profit/(loss) from operations		<b>32,704</b>	(1,083)
Finance costs	5	<b>(1,049)</b>	(732)
Share of profit of an associate		<b>2,362</b>	2,637
<b>Profit before tax</b>		<b>34,017</b>	822
Income tax expense	6	<b>(3,004)</b>	(3,355)
<b>Profit/(loss) for the period</b>	7	<b>31,013</b>	(2,533)
<b>Other comprehensive income/(expense) after tax:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		<b>259</b>	-
Fair value change of equity investment at fair value through other comprehensive income ("FVTOCI")		-	2,896
		<b>259</b>	2,896
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>(21,662)</b>	6,841
Exchange differences arising on translation of an associate		<b>(3,145)</b>	(1,074)
		<b>(24,807)</b>	5,767
<b>Other comprehensive (expense)/income for the period, net of tax</b>		<b>(24,548)</b>	8,663
<b>Total comprehensive income for the period</b>		<b>6,465</b>	6,130

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Note	Unaudited	
		Six months ended 30 June 2022 HK\$'000	2021 HK\$'000
<b>Profit/(loss) for the period attributable to:</b>			
Owners of the Company		<b>28,466</b>	(5,609)
Non-controlling interests		<b>2,547</b>	3,076
		<b>31,013</b>	(2,533)
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		<b>6,401</b>	2,856
Non-controlling interests		<b>64</b>	3,274
		<b>6,465</b>	6,130
<b>Profit/(loss) per share</b>		<b>HK cents</b>	<b>HK cents</b>
Basic and diluted	9	<b>7.37</b>	(1.45)

# Condensed Consolidated Statement of Financial Position

At 30 June 2022

		<b>Unaudited 30 June 2022 HK\$'000</b>	Audited 31 December 2021 HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Investment properties	10	<b>86,910</b>	142,400
Property, plant and equipment	11	<b>222,817</b>	203,400
Deposits paid for acquisition of property, plant and equipment		<b>19,770</b>	1,931
Intangible assets		<b>25,526</b>	28,617
Goodwill		<b>26,890</b>	28,331
Investment in an associate	12	<b>36,186</b>	37,303
Investment in a joint venture		-	-
Equity investment at FVTOCI		<b>3,071</b>	-
Equity investment at fair value through profit or loss ("FVTPL")		-	13,875
Contingent consideration receivable	20	<b>965</b>	965
Deferred tax assets		<b>6,015</b>	5,901
		<b>428,150</b>	462,723
<b>Current assets</b>			
Inventories		<b>151,487</b>	179,232
Debtors, deposits and prepayments	13	<b>324,019</b>	339,242
Tax recoverable		-	53
Short-term bank deposits		<b>1,180</b>	4,623
Bank balances and cash		<b>144,493</b>	136,956
		<b>621,179</b>	660,106
Assets classified as held for sale	14	<b>30,302</b>	-
		<b>651,481</b>	660,106
<b>Current liabilities</b>			
Creditors and accrued charges	15	<b>440,694</b>	460,877
Contract liabilities		<b>7,763</b>	9,206
Refund liabilities		<b>6,750</b>	6,555
Consideration payable	12	<b>417</b>	417
Lease liabilities		<b>2,710</b>	4,243
Bank borrowings	16	<b>41,189</b>	66,573
Tax liabilities		<b>10,839</b>	9,590
		<b>510,362</b>	557,461
<b>Net current assets</b>		<b>141,119</b>	102,645
<b>Total assets less current liabilities</b>		<b>569,269</b>	565,368

# Condensed Consolidated Statement of Financial Position

At 30 June 2022

		<b>Unaudited 30 June 2022 HK\$'000</b>	Audited 31 December 2021 HK\$'000
	<i>Notes</i>		
<b>Non-current liabilities</b>			
Consideration payable	12	556	556
Lease liabilities		7,110	8,563
Deferred tax liabilities		16,806	15,917
		<b>24,472</b>	25,036
<b>NET ASSETS</b>		<b>544,797</b>	540,332
<b>Capital and reserves</b>			
Share capital	17	38,626	38,626
Reserves		421,408	415,007
Equity attributable to owners of the Company		<b>460,034</b>	453,633
Non-controlling interests		84,763	86,699
<b>TOTAL EQUITY</b>		<b>544,797</b>	540,332

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the Company										
	Share capital	Share premium	Special reserve	Other reserve	Exchange reserve	Financial assets at FVTOCI reserve	Property revaluation reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)	(Note b)							
At 1 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 20) (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 30 June 2021 (unaudited)	38,626	118,706	(3,269)	4,833	86,770	-	39,177	144,072	428,915	83,427	512,342
At 1 January 2022 (audited)	38,626	118,706	(3,269)	4,833	85,179	-	39,177	170,381	453,633	86,699	540,332
Total comprehensive (expense)/income for the period (unaudited)	-	-	-	-	(22,324)	-	259	28,466	6,401	64	6,465
Dividends paid to non-controlling shareholders of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	-	(2,000)	(2,000)
Changes in equity for the period (unaudited)	-	-	-	-	(22,324)	-	259	28,466	6,401	(1,936)	4,465
At 30 June 2022 (unaudited)	38,626	118,706	(3,269)	4,833	62,855	-	39,436	198,847	460,034	84,763	544,797

## Notes:

- (a) 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.
- (b) 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 30 June 2022

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
<b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>51,418</b>	(36,126)
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	<b>(16,410)</b>	(11,688)
Proceeds from disposal of property, plant and equipment	<b>5,741</b>	154
Interest received	<b>210</b>	146
Purchase of equity investment at FVTOCI	<b>(3,071)</b>	-
Proceed from disposal of equity investment at FVTPL	<b>13,104</b>	-
Placement of short-term bank deposit	<b>(1,180)</b>	(1,180)
Withdrawal of short-term bank deposits	<b>4,623</b>	-
Repayment of consideration payable	-	(449)
Deposits paid for acquisition of property, plant and equipment	<b>(18,007)</b>	(8,868)
Deposit received in relation to assets classified as held for sale	<b>9,060</b>	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,930)</b>	(37,083)
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries	-	8,890
Cash dividends paid to non-controlling shareholders of a subsidiary	<b>(2,000)</b>	(538)
Payments to non-controlling shareholders in respect of capital reduction of a subsidiary	-	(385)
New bank borrowings raised	<b>31,043</b>	11,322
Interest paid on bank borrowings	<b>(703)</b>	(283)
Interest paid on lease liabilities	<b>(346)</b>	(449)
Repayments of bank borrowings	<b>(56,427)</b>	(14,151)
Repayments of lease liabilities	<b>(2,986)</b>	(2,180)
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>	<b>(31,419)</b>	2,226
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>14,069</b>	(70,983)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>136,956</b>	212,563
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(6,532)</b>	7,572
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>144,493</b>	149,152

# 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. 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 30 June 2022

## 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 30 June 2022 (unaudited) Level 3 HK\$'000
<b>Recurring fair value measurements:</b>	
<b>Financial assets</b>	
Financial asset at FVTOCI – Unlisted equity security	3,071
Contingent consideration receivable	965
	<hr/> 4,036
<b>Investment properties</b>	
Commercial units – Hong Kong	62,800
Factory premise – Vietnam	24,110
	<hr/> 86,910
<b>Total</b>	<hr/> <b>90,946</b> <hr/>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 3. FAIR VALUE MEASUREMENTS (continued)

### (a) Disclosures of level in fair value hierarchy: (continued)

Description	Fair value measurements as at 31 December 2021 (audited)		
	Level 1 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements:</b>			
<b>Financial assets</b>			
Financial asset at FVTPL			
– Listed equity security	13,875	–	13,875
Contingent consideration receivable	–	965	965
	13,875	965	14,840
<b>Investment properties</b>			
Commercial units – Hong Kong	–	142,400	142,400
<b>Total</b>	<b>13,875</b>	<b>143,365</b>	<b>157,240</b>

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

#### Assets

Description	Unlisted equity security HK\$'000	Contingent consideration receivable HK\$'000	Investment properties HK\$'000	2022 Total HK\$'000
At 1 January 2022	–	965	142,400	143,365
Total gains or losses recognised in profit or loss (#)	–	–	1,772	1,772
Initial recognition	3,071	–	–	3,071
Reclassification from property, plant and equipment	–	–	24,112	24,112
Reclassification to property, plant and equipment	–	–	(81,000)	(81,000)
Exchange realignment	–	–	(374)	(374)
At 30 June 2022	<b>3,071</b>	<b>965</b>	<b>86,910</b>	<b>90,946</b>
(#) Include gains or losses for assets held at end of reporting period	–	–	1,772	1,772

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 3. FAIR VALUE MEASUREMENTS (continued)

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

#### 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 1 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 30 June 2021	-	-	965	143,000	143,965
(#) Include gains or losses for assets held at end of reporting period	-	-	-	2,510	2,510

#### Liabilities

Description	2021 Derivative call option HK\$'000
At 1 January 2021	(4,261)
Exercised	4,261
At 30 June 2021	-

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 30 June 2022

## **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 30 June 2022:**

The Group's chief financial officer (the "CFO") is responsible for the fair value measurements of financial assets and financial liabilities required for financial reporting purposes, including level 3 fair value measurements. The CFO reports directly to the board (the "Board") of directors of the Company (the "Directors") 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);
- market rental unit price (estimated based on unit price, infrastructure, scale, geographical location, traffic, environment and security between the comparables and the property);
- adjusted price-to-sales ratio (estimated based on the historical share price-to-sales of listed entities in similar industries);
- discount rate (estimated based on the cost of equity of listed entities in similar industrials); and
- probability (estimated based on the probability of achieving the net profit for the three years ending on 31 December 2021, 2022 and 2023 with best and worst case).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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 30 June 2022: (continued)

Level 3 fair value measurements				Effect on fair value for increase of inputs	Fair value - Assets	
Description	Valuation techniques	Unobservable inputs	Range		30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Investment properties						
- Commercial units - Hong Kong	Income capitalisation approach	Reversion yield	2.6% to 3.0% (31 December 2021: 2.8% to 3.5%)	Decrease	<b>62,800</b>	142,400
		Monthly market rent	Office portion: HK\$26.0 to HK\$29.4 (31 December 2021: HK\$28.8 to HK\$29.4) per square foot per month on lettable area basis Car parking space portion: HK\$3,300 to HK\$3,500 (31 December 2021: HK\$3,300 to HK\$3,500) per car parking space per month	Increase		
- Factory premise - Vietnam	Market approach	Market rental unit price	Industrial park infrastructure portion: USD150 (31 December 2021: N/A) per square meter	Increase	<b>24,110</b>	-
Financial asset at FVTOCI	Market approach	Adjusted price-to-sales ratio	2.2 (31 December 2021: N/A)	Increase	<b>3,071</b>	-
Contingent consideration receivable	Probability-weighted payment approach	Discount rate	14.4% (31 December 2021: 14.4%)	Decrease	<b>965</b>	965
		Probability	10% (31 December 2021: 10%)	Increase		

There were no changes in the valuation techniques used.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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 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 HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Revenue from contracts with customers (Note)</b>					
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
Revenue from external customers	<b>336,186</b>	<b>115,930</b>	<b>100,200</b>	<b>27,741</b>	<b>580,057</b>
<b>Result</b>					
Segment profit	<b>19,074</b>	<b>9,864</b>	<b>4,882</b>	<b>2,260</b>	<b>36,080</b>
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					2,362
Profit before tax					<b>34,017</b>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 4. REVENUE AND SEGMENT INFORMATION (continued)

### Segment revenues and results (continued)

For the six months ended 30 June 2021 (unaudited)

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Revenue from contracts with customers (Note)</b>					
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
<b>Result</b>					
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

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

## 5. FINANCE COSTS

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 6. INCOME TAX EXPENSE

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

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 Profits 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 6. INCOME TAX EXPENSE (continued)

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.

## 7. PROFIT/(LOSS) FOR THE PERIOD

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

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

*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.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 8. 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 years ended 31 December 2021 and 31 December 2020, respectively.

## 9. PROFIT/(LOSS) PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit/(loss) for the purpose of basic profit/(loss) per share – Profit/(loss) for the period attributable to owners of the Company	<b>28,466</b>	(5,609)
	<b>2022</b>	<b>2021</b>
	<b>Number</b>	<b>Number</b>
	<b>of shares</b>	<b>of shares</b>
Weighted average number of shares for the purpose of basic profit/(loss) per share	<b>386,263,374</b>	386,263,374

No diluted profit/(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 30 June 2022

## 10. INVESTMENT PROPERTIES

	<b>30 June 2022 HK\$'000 (unaudited)</b>	31 December 2021 HK\$'000 (audited)
At 1 January	<b>142,400</b>	140,490
Increase in fair value recognised in profit or loss	<b>1,772</b>	1,910
Reclassification from property, plant and equipment ( <i>note 11</i> )	<b>24,112</b>	–
Reclassification to property, plant and equipment ( <i>note 11</i> )	<b>(81,000)</b>	–
Exchange realignment	<b>(374)</b>	–
At 30 June/31 December	<b>86,910</b>	142,400

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 independent firms of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and key inputs to the model.

On 30 June 2022, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers") and Vietnam Valuation and Financial Consultancy Company ("VVFC") (31 December 2021: Vigers), both are independent firms of professional valuers not connected to the Group which have 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 and market approach. For the income capitalisation approach, the valuation has 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. For the market approach, the valuation has been determined the value of a target asset through comparing it with identical or similar assets, which has price information on the market. There has been no change from the valuation techniques 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 30 June 2022

## **11. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2022, the Group acquired property, plant and equipment of approximately HK\$16,578,000 (six months ended 30 June 2021: HK\$27,753,000).

During the six months ended 30 June 2022, the Group changed the usage of a factory premise in Vietnam from owner occupation to investment properties. Accordingly, the factory premise with carrying amount of HK\$23,853,000 was transferred from property, plant and equipment to investment properties at its fair value on the date of transfer of HK\$24,112,000 which was determined by the Directors with reference to the valuation carried out by VVFC at the date of transfer. The difference between the fair value of the factory premise and its carrying amount at the date of transfer amounting to HK\$259,000 has been credited to property revaluation reserve.

During the six months ended 30 June 2022, the Group changed the usage of seven units of office premises in Hong Kong from investment properties to owner occupation. Accordingly, the relevant portion of the office premises with carrying amount of HK\$81,000,000 was transferred from investment properties to property, plant and equipment at their fair values on the date of transfer of HK\$81,000,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the date of transfer.

During the six months ended 30 June 2022, certain land and buildings of the Group with carrying amounts of HK\$30,302,000 were transferred to assets classified as held for sale, details of which are disclosed in note 14.

During the six months ended 30 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 included in additions of property, plant and equipment and lease liabilities of HK\$10,774,000 respectively.

## **12. INVESTMENT IN AN ASSOCIATE**

On 27 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 10 April 2019. Up to 30 June 2022, the Group has paid EUR677,250 (equivalent to approximately HK\$6,002,000) (31 December 2021: EUR677,250 (equivalent to approximately HK\$6,002,000)) to the Vendor and the remaining consideration of EUR110,250 (equivalent to approximately HK\$973,000) will be settled on 31 December 2022 and 31 January 2025 pursuant to the share purchase agreement.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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\$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:

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

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.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

During the six months ended 30 June 2022, the Group reversed the impairment allowance of HK\$451,000 (six months ended 30 June 2021: HK\$276,000), in particular, a specific loss allowance of nil (six months ended 30 June 2021: HK\$38,000) 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 30 June 2022

## 13. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

### Trade debtors due from the associate and joint venture

As at 30 June 2022, included in the Group's trade debtors is an amount due from the Group's associate of HK\$61,577,000 (31 December 2021: HK\$43,774,000) net of allowance for credit losses of HK\$685,000 (31 December 2021: HK\$487,000) and an amount due from the Group's joint venture of nil (31 December 2021: nil) net of allowance for credit losses of HK\$40,000 (31 December 2021: HK\$40,000), 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 30 June 2022, the amounts outstanding are unsecured with carrying amount of HK\$15,353,000 (31 December 2021: HK\$2,649,000) which are past due balances, HK\$2,603,000 (31 December 2021: HK\$2,399,000) has been past due 90 days or more and is not considered as in default. As at 30 June 2022, an impairment loss of HK\$725,000 (31 December 2021: HK\$527,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

## 14. ASSETS CLASSIFIED AS HELD FOR SALE

Sin Dak Industrial Limited, an indirect 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.

## 15. CREDITORS AND ACCRUED CHARGES

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 15. CREDITORS AND ACCRUED CHARGES (continued)

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

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

### Trade creditor due to the associate

As at 30 June 2022, included in the Group's trade creditors is an amount due to the Group's associate of HK\$400,000 (31 December 2021: HK\$542,000), 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.

## 16. BANK BORROWINGS

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 16. BANK BORROWINGS (continued)

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

	<b>30 June 2022 HK\$'000 (unaudited)</b>	31 December 2021 HK\$'000 (audited)
Within one year	<b>35,902</b>	58,320
More than one year, but not exceeding two years	<b>5,287</b>	5,981
More than two years, but not exceeding five years	-	2,272
	<b>41,189</b>	66,573
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<b>(41,189)</b>	(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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 17. SHARE CAPITAL

	Number of shares		Nominal value	
	30 June 2022 (unaudited)	31 December 2021 (audited)	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of period	<b>1,000,000,000</b>	1,000,000,000	<b>100,000</b>	100,000
Issued and fully paid:				
At beginning and end of period	<b>386,263,374</b>	386,263,374	<b>38,626</b>	38,626

## 18. CAPITAL COMMITMENTS

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

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 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	<b>100,289</b>	112,635
– buildings under construction	<b>25,827</b>	801
– plant and machinery	<b>121</b>	687
– furniture, fixture and office equipment	<b>80</b>	–
– leasehold improvements	<b>2,046</b>	351
	<b>128,363</b>	114,474



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 19. 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:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Sales of prescription frames and sunglasses to:		
an associate	<b>59,634</b>	28,282
a non-controlling shareholder of a subsidiary	<b>-</b>	84
	<b>59,634</b>	28,366
Purchase of prescription frames, sunglasses and raw materials from an associate	<b>405</b>	472

The Directors are of the opinion that the above transactions with the associate 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 and joint venture are shown in notes 13 and 15 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 30 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 30 June 2022

## 19. RELATED PARTY TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term benefits	5,552	6,151
Post-employment benefits	340	356
	<b>5,892</b>	<b>6,507</b>

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.

## 20. ACQUISITION OF A SUBSIDIARY

On 24 March 2021, Arts Opti Lab (Shenzhen) Company Limited<sup>^</sup> (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<sup>^</sup> (丹陽市五彩光學眼鏡有限公司) (the "Seller I"), Danyang Zhongjiang Glasses Company Limited<sup>^</sup> (丹陽市中江光學眼鏡有限公司) (the "Seller II"), Danyang Zhongyang Glasses Company Limited<sup>^</sup> (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<sup>^</sup> (五彩司徠柏光學科技(江蘇)有限公司) ("Stepper & Colors") 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 Stepper & Colors at the total consideration of RMB46,500,000 (equivalent to approximately HK\$56,542,000), subject to adjustment. After acquisition, the Purchaser and the Sellers further agreed to inject an aggregate of RMB10,000,000 (equivalent to approximately HK\$12,160,000) to Stepper & Colors in cash based on the percentage of their respective equity holding in Stepper & Colors. Stepper & Colors 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 26 April 2021. With the acquisition, the Group will be able to provide a one-stop solution to serve its 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 24 March 2021 and 26 April 2021.

<sup>^</sup> 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 30 June 2022

## 20. 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 31 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 Stepper & Colors 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 Stepper & Colors 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, 31 December 2021 and 30 June 2022, 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 31 December 2021. The Directors consider that the carrying amount of contingent consideration in the condensed consolidated interim financial statements approximate its fair value. 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>
<b>Current assets</b>	
Inventories	7,675
Other debtors	1,233
<b>Non-current assets</b>	
Plant and equipment	34,120
Intangible assets	26,931
Deferred tax asset	1,403
<b>Non-current liability</b>	
Deferred tax liability	<u>(6,733)</u>
Fair value of net identifiable assets	<u>64,629</u>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## **20. ACQUISITION OF A SUBSIDIARY** (continued)

### **Non-controlling interests**

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

### **Goodwill arising on acquisition**

	<u>HK\$'000</u>
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**

	<u>HK\$'000</u>
Cash consideration paid in 2021	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 Stepper & Colors 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 30 June 2021 was a profit of HK\$1,255,000 attributable to the additional business generated by Stepper & Colors. Revenue for the six months ended 30 June 2021 included HK\$18,258,000 in respect of Stepper & Colors.

## **21. APPROVAL OF FINANCIAL STATEMENTS**

The interim financial statements were approved and authorised for issue by the Board on 29 August 2022.

## Supplementary Information

### **DIVIDENDS**

The board (the "Board") of directors of the Company (the "Directors") has resolved not to declare any interim dividend (2021: nil) for the six months ended 30 June 2022.

### **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 30 June 2022.

### **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.

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

As at 30 June 2022, 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)</i>	176,112,000	45.59%
Ng Kim Ying	23,126,347	5,000,000	-	28,126,347	7.28%
Ng Yat Shan	3,766,000	-	-	3,766,000	0.97%

*Note:* 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.

Save as disclosed above, as at 30 June 2022, 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 30 June 2022, 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)**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
HSBC International Trustee Limited	Trustee	153,600,000 ( <i>Note a</i> )	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000 ( <i>Note a</i> )	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000 ( <i>Note a</i> )	39.77%
Wu Zhihong	Beneficial owner	19,656,000 ( <i>Note a</i> )	5.09%
David Michael Webb	Beneficial owner	9,777,000 ( <i>Note b</i> )	2.53%
	Held by controlled corporation	21,125,000 ( <i>Note c</i> )	5.47%
Preferable Situation Assets Limited	Beneficial owner	21,125,000 ( <i>Note c</i> )	5.47%

*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 17 January 2020, as at 15 January 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 17 January 2020), 19,656,000 shares of the Company were held directly by his wife, Ms. Wu Zhihong.

## Supplementary Information

- (b) According to an individual substantial shareholder notice filed by Mr. David Michael Webb (“Mr. Webb”) on 3 April 2020, as at 31 March 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 3 April 2020), 9,777,000 shares of the Company were held directly by Mr. Webb.
- (c) 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 30 June 2022.

### **CORPORATE GOVERNANCE**

The Company has complied with all applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules 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. The Group’s interim report comprising its unaudited condensed consolidated financial statements for the six months ended 30 June 2022 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.