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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINAL RESULTS

The board of directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2023 together with last year’s comparative figures.

	2023	2022
Revenue	HK\$1,196,309,000	HK\$1,144,103,000
Profit attributable to owners of the Company	HK\$51,321,000	HK\$114,773,000
Earnings per share	13.29 HK cents	29.71 HK cents
Final dividend per share	5.0 HK cents	5.0 HK cents
Special dividend per share	Nil	5.0 HK cents

* *For identification purpose only*

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

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	1,196,309	1,144,103
Cost of sales		(825,320)	(831,490)
Gross profit		370,989	312,613
Other income	4	36,031	35,956
Other gains and losses	5	(12,032)	33,147
Impairment losses	7	(203)	(454)
Net gain relating to the disposal of premises		–	58,818
Distribution and selling expenses		(46,828)	(41,106)
Administrative expenses		(305,008)	(274,387)
Other expenses		(879)	(1,599)
Profit from operations		42,070	122,988
Finance costs	8	(685)	(1,554)
Share of profit of an associate		15,470	5,644
Share of profit of joint ventures		3	–
Profit before tax		56,858	127,078
Income tax expense	9	(162)	(7,057)
Profit for the year	10	56,696	120,021
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”)		(1,963)	–
		(1,963)	259
<i>Items that reclassified and may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		10,762	(53,068)
Exchange differences arising on translation of an associate		2,191	(2,432)
Exchange differences arising on translation of joint ventures		5	–
Realisation of exchange reserve upon deregistration of a subsidiary		(95)	–
		12,863	(55,500)
Other comprehensive income/(expense) for the year, net of tax		10,900	(55,241)
Total comprehensive income for the year		67,596	64,780

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company		51,321	114,773
Non-controlling interests		5,375	5,248
		<u>56,696</u>	<u>120,021</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		61,834	65,713
Non-controlling interests		5,762	(933)
		<u>67,596</u>	<u>64,780</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic and diluted	<i>12</i>	<u>13.29</u>	<u>29.71</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Investment properties		78,160	87,316
Property, plant and equipment		303,977	207,214
Deposits paid for acquisition of property, plant and equipment		16,295	38,726
Intangible assets		17,901	21,873
Goodwill		26,763	25,293
Investment in an associate		56,864	39,869
Investments in joint ventures		1,314	1,306
Equity investments at FVTOCI		7,694	7,666
Contingent consideration receivable		–	57
Deferred tax assets		20,194	6,411
		<hr/> 529,162	<hr/> 435,731
Current assets			
Inventories		181,374	129,898
Debtors, deposits and prepayments	<i>13</i>	412,677	334,370
Tax recoverable		647	292
Short-term bank deposits		1,121	1,156
Bank balances and cash		151,563	189,710
		<hr/> 747,382	<hr/> 655,426
Current liabilities			
Creditors and accrued charges	<i>14</i>	569,300	429,355
Contract liabilities		13,249	8,458
Refund liabilities		3,016	7,200
Lease liabilities		3,624	2,332
Bank borrowings	<i>15</i>	16,545	6,075
Tax liabilities		8,219	9,396
		<hr/> 613,953	<hr/> 462,816
Net current assets		<hr/> 133,429	<hr/> 192,610
Total assets less current liabilities		<hr/> 662,591	<hr/> 628,341

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current liabilities		
Consideration payable	556	556
Lease liabilities	4,981	3,550
Deferred tax liabilities	25,246	18,286
	<u>30,783</u>	<u>22,392</u>
NET ASSETS	<u>631,808</u>	<u>605,949</u>
Capital and reserves		
Share capital	38,626	38,626
Reserves	503,297	480,591
	<u>541,923</u>	<u>519,217</u>
Equity attributable to owners of the Company	541,923	519,217
Non-controlling interests	89,885	86,732
TOTAL EQUITY	<u>631,808</u>	<u>605,949</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. BASIS OF PREPARATION

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

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

Application of new and revised HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules – Amendments to HKAS 12
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” for the first time in the current year. HKAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies.

Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund (“MPF”) – Long Service Payment (“LSP”) offsetting mechanism in Hong Kong

The Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory and voluntary MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee’s accrued retirement benefits derived from employers’ MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which abolishes the use of the accrued benefits derived from employers’ mandatory MPF contributions to offset severance payment and LSP (the “Abolition”). The Abolition will officially take effect on 1 May 2025 (the “Transition Date”). In addition, under the Amendment Ordinance, the last month’s salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee’s LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA’s guidance, as a result of the Abolition, these contributions are no longer considered “linked solely to the employee’s service in that period” since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as “independent of the number of years of service” and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19. Accordingly, the Group has recognised a cumulative catch-up adjustment in profit or loss for the service cost, interest expense and remeasurement effect from changes in actuarial assumptions for the year ended 31 December 2022, with corresponding adjustment to the LSP obligation. The cumulative catch-up adjustment is calculated as the difference at the enactment date (16 June 2022) between the carrying amount of the LSP liability calculated under paragraph 93(b) of HKAS 19 before the Abolition and the carrying amount of the LSP liability calculated under paragraph 93(a) of HKAS 19 after the Abolition.

The application of the change in accounting policy has had no material impact on the Group’s financial positions and performance.

3. REVENUE

Disaggregation of revenue

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15 <i>Revenue from Contracts with Customers</i>		
Disaggregated by major products or service lines		
– Original design manufacturing division	853,987	817,070
– Distribution division	260,775	259,765
– Lens division	81,547	67,268
	<u>1,196,309</u>	<u>1,144,103</u>

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

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

4. OTHER INCOME

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Compensation from other customers	4,406	5,208
Compensation from an associate	4,733	1,684
Government subsidy	1,670	5,200
Gross rental income from investment properties	3,218	3,921
Interest income on bank deposits	850	430
Product development income	3,722	6,865
Sales of scrap materials	2,423	2,408
Sales of raw materials	4,184	2,554
Sales of sample and mould	102	1,253
Subcontracting fee income	1,365	660
Other rental income	6,460	2,815
Others	2,898	2,958
	<u>36,031</u>	<u>35,956</u>

5. OTHER GAINS AND LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net foreign exchange (losses)/gain	(13,521)	30,154
Net gain on disposal of property, plant and equipment	3,550	1,874
(Decrease)/increase in fair values of investment properties	(2,008)	2,665
Decrease in fair value of contingent consideration receivable	(57)	(908)
Gain on lease modifications	4	133
Loss on disposal of equity investment at fair value through profit or loss ("FVTPL")	—	(771)
	<u>(12,032)</u>	<u>33,147</u>

6. SEGMENT INFORMATION

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

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, interest income, property rental income, net foreign exchange gain or losses, changes in fair values of investment properties, loss on disposal of equity investment at FVTPL, net gain relating to the disposal of premises, finance costs, provision of penalty and share of results of an associate and joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Information about operating segment profit or loss:

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2023					
Original design manufacturing division	468,151	201,332	176,875	7,629	853,987
Distribution division	167,979	25,252	34,222	33,322	260,775
Lens division	–	–	81,547	–	81,547
	<u>636,130</u>	<u>226,584</u>	<u>292,644</u>	<u>40,951</u>	<u>1,196,309</u>
Revenue from external customers					
	<u>636,130</u>	<u>226,584</u>	<u>292,644</u>	<u>40,951</u>	<u>1,196,309</u>
Segment profit	<u>57,327</u>	<u>20,467</u>	<u>21,060</u>	<u>4,805</u>	<u>103,659</u>
Unallocated income and gains					6,769
Unallocated corporate expenses and losses					(69,208)
Interest income on bank deposits					850
Finance costs					(685)
Share of profit of an associate					15,470
Share of profit of joint ventures					3
Profit before tax					<u><u>56,858</u></u>
	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2022					
Original design manufacturing division	493,397	195,100	110,800	17,773	817,070
Distribution division	157,672	25,460	35,165	41,468	259,765
Lens division	–	–	67,268	–	67,268
	<u>651,069</u>	<u>220,560</u>	<u>213,233</u>	<u>59,241</u>	<u>1,144,103</u>
Revenue from external customers					
	<u>651,069</u>	<u>220,560</u>	<u>213,233</u>	<u>59,241</u>	<u>1,144,103</u>
Segment profit	<u>27,588</u>	<u>14,526</u>	<u>9,543</u>	<u>5,678</u>	57,335
Unallocated income and gains					38,734
Unallocated corporate expenses and losses					(32,329)
Net gain relating to disposal of premises					58,818
Interest income on bank deposits					430
Finance costs					(1,554)
Share of profit of an associate					5,644
Profit before tax					<u><u>127,078</u></u>

7. IMPAIRMENT LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(Reversal of impairment loss)/impairment loss recognised on debtors, net	(81)	454
Impairment loss recognised on intangible assets	284	–
	<u>203</u>	<u>454</u>

8. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank borrowings	229	984
Interest on lease liabilities	456	570
	<u>685</u>	<u>1,554</u>

9. INCOME TAX EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current year:		
Hong Kong Profits Tax	2,318	2,872
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	710	–
United Kingdom Corporation Tax	3,004	2,454
France Corporation Tax	(5)	(176)
South Africa Corporation Tax	327	51
Italy Corporation Tax	291	37
Vietnam Corporation Tax	7	12
Deferred taxation	(6,811)	1,800
	<u>(159)</u>	<u>7,050</u>
Under/(over) provision in respect of prior year:		
Hong Kong Profits Tax	201	(10)
PRC Enterprise Income Tax	39	12
United Kingdom Corporation Tax	95	15
South Africa Corporation Tax	(14)	(10)
	<u>321</u>	<u>7</u>
	<u>162</u>	<u>7,057</u>

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

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

Under the Law of the PRC Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% before 1 April 2023 and increase to 25% from 1 April 2023 of the entity with profits in excess of GBP250,000 (2022: 19%) in accordance with the relevant law and regulations in the United Kingdom for the year.

France Corporation Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in France for both years.

South Africa Corporation Tax is calculated at the applicable rate of 28% and reduced to 27% for the year ending on or after 31 March 2023 (2022: 28%) in accordance with the relevant law and regulations in South Africa for the year.

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 both years.

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

10. PROFIT FOR THE YEAR

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	4,505	4,611
(Reversal of impairment loss)/impairment loss recognised on debtors, net	(81)	454
Impairment loss recognised on intangible assets	284	–
Auditors' remuneration:		
– Audit service	1,600	1,555
– Non-audit services	303	349
Cost of inventories recognised as an expense (<i>Note</i>)	823,084	826,783
Depreciation of property, plant and equipment	30,512	28,720
Decrease/(increase) in fair values of investment properties	2,008	(2,665)
Allowance for inventories (included in cost of sales)	2,236	4,707
Written-off of the consideration receivable from the disposal of equity investment at FVTOCI	–	2,329
Operating leases rentals in respect of rented premises	30	53
Provision of penalty (included in administrative expenses) (<i>note 14</i>)	19,391	–
Direct operating expenses of investment properties that did not generate rental income	2,379	1,107
Direct operating expenses of investment properties that generate rental income	270	482
Staff costs:		
Directors' and chief executive officer's emoluments	5,757	3,785
Other staff		
– Salaries, bonuses and allowances	376,966	372,423
– Retirement benefit scheme contributions	54,618	65,590
Total staff costs	<u>437,341</u>	<u>441,798</u>

Note:

Cost of inventories sold includes staff costs and depreciation of approximately HK\$236,657,000 (2022: HK\$244,611,000) which are included in the amounts disclosed separately above.

11. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Final dividend paid of 5.0 HK cents in respect of 2022 (2022: nil in respect of 2021) per share	19,313	–
Special dividend paid of 5.0 HK cents in respect of 2022 (2022: nil in respect of 2021) per share	19,313	–
	<u>38,626</u>	<u>–</u>

A final dividend of 5.0 HK cents in respect of 2023 per share has been proposed by the directors of the Company (the “Directors”) and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the purpose of basic earnings per share		
– Profit for the year attributable to owners of the Company	<u>51,321</u>	<u>114,773</u>
	2023 <i>Number of</i> <i>shares</i>	2022 <i>Number of</i> <i>shares</i>
Weighted average number of shares for the purpose of basic earnings per share	<u>386,263,374</u>	<u>386,263,374</u>

No diluted earnings per share has been presented as there was no potential ordinary shares in issue during 2023 and 2022.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade debtors from contracts with customers	359,677	316,549
Less: Allowance for credit losses	<u>(6,067)</u>	<u>(6,323)</u>
	353,610	310,226
Bills receivables	244	254
Other debtors, deposits and prepayments	<u>58,823</u>	<u>23,890</u>
Total debtors, deposits and prepayments	<u><u>412,677</u></u>	<u><u>334,370</u></u>

The following is the ageing analysis of trade debtors net of allowance for credit losses presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 - 90 days	235,296	213,375
91 - 180 days	104,895	89,505
More than 180 days	13,419	7,346
	<u>353,610</u>	<u>310,226</u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 - 90 days	<u>244</u>	<u>254</u>

14. CREDITORS AND ACCRUED CHARGES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade creditors	155,388	116,857
Consideration payable for investment properties	14,080	–
Provision of penalty (<i>Note</i>)	19,391	–
Other creditors and accrued charges	380,441	312,498
	<u>569,300</u>	<u>429,355</u>

Note:

On 14 November 2023, the Group received a Decision of Administrative Penalty (the “Decision”) from the Shenzhen Longgang District Planning and Land Supervision Bureau (the “Bureau”). According to the Decision, the Bureau considered that one of the Group’s factory premises located in Shenzhen Longgang District is an illegal construction. As a result, the Bureau decided to impose a penalty according to relevant rules and regulations on the Group. Currently, the management is actively engaged in negotiations with the Bureau regarding the amount of the penalty, and expected to finalise it in 2024. During the year ended 31 December 2023, the Directors have evaluated the situation and determined that the reasonable level of penalty amounts to approximately RMB18 million and a provision for this penalty has been made.

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 - 60 days	135,213	102,920
61 - 120 days	12,866	8,438
More than 120 days	7,309	5,499
	<u>155,388</u>	<u>116,857</u>

15. BANK BORROWINGS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Secured bank borrowings	<u>16,545</u>	<u>6,075</u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within one year	16,545	4,531
More than one year, but not exceeding two years	<u>–</u>	<u>1,544</u>
	16,545	6,075
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(16,545)</u>	<u>(6,075)</u>
Amounts due after one year shown under non-current liabilities	<u>–</u>	<u>–</u>

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

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK\$1,545,000 (2022: HK\$6,075,000) 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\$136,177,000 (2022: HK\$142,737,000).

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of 5.0 HK cents (2022: 5.0 HK cents) per share, and nil special dividend (2022: 5.0 HK cents) per share for the year ended 31 December 2023. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 6 June 2024 (the “AGM”), the final dividend will be payable on or about 28 June 2024 to shareholders whose names appear on the register of members of the Company at the close of business on 14 June 2024.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders’ eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

- (i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration	4:30 p.m. on 31 May 2024
Closure of register of members	3 June 2024 to 6 June 2024 (both dates inclusive)
Record date	6 June 2024

- (ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 p.m. on 12 June 2024
Closure of register of members	13 June 2024 to 14 June 2024 (both dates inclusive)
Record date	14 June 2024

During the above closure periods, no transfer of shares will be effected. To be eligible to attend and vote at the AGM and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than the aforementioned latest times.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company’s website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited’s HKExnews website at www.hkexnews.hk in late-April 2024.

BUSINESS REVIEW

Profitability analysis

The Group has recorded a moderate increase in its consolidated revenue by 5% to HK\$1,196.3 million in the financial year ended 31 December 2023 (2022: HK\$1,144.1 million). For the year under review, the Group recorded a profit attributable to owners of the Company and earnings per share of HK\$51.3 million and 13.29 HK cents respectively (2022: HK\$114.8 million and 29.71 HK cents respectively).

The Board considers that the reasons for the decrease in net profit attributable to owners of the Company were mainly due to the following items:

- (a) a net gain relating to the disposal of premises of HK\$58.8 million was recorded for the year ended 31 December 2022, but no such net gain was recorded for the year ended 31 December 2023; and
- (b) a significant net foreign exchange gain of HK\$30.2 million was recorded for the year ended 31 December 2022 due to the depreciation of Renminbi against the United States Dollars during the year of 2022, whereas a net foreign exchange loss of HK\$13.5 million was recorded for the year ended 31 December 2023.

Original design manufacturing (“ODM”) division

Our ODM division continued to be the key revenue contributor and revenue generated from this division contributed to 71% of the consolidated revenue of the Group in 2023 (2022: 71%). Sales to ODM customers increased by 5% from HK\$817.1 million in 2022 to HK\$854.0 million in 2023. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 55%, 23%, 21% and 1% respectively of the revenue of the ODM division in 2023 (2022: 60%, 24%, 14% and 2% respectively). Sales to Europe and other regions reduced by 5% and 57% respectively whereas sales to the US and Asia were up by 3% and 60% respectively in 2023. Significant growth in sales in Asia region was because the Group has shifted focus on ODM market development from western countries to Asian countries especially the China market during the year. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2023. Sales of prescription frames, sunglasses and spare parts accounted for 43%, 52% and 5% respectively of revenue of the ODM division in 2023 (2022: 44%, 51% and 5% respectively).

Distribution division

Revenue generated from the distribution division increased slightly by below 1% from HK\$259.7 million in 2022 to HK\$260.8 million in 2023 and accounted for 22% of the consolidated revenue of the Group in 2023 (2022: 23%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, Germany, Italy, China, Malaysia and South Africa, and independent distributors in other countries. Sales to Europe, the US, Asia and other regions accounted for 64%, 10%, 13% and 13% respectively of the revenue of the distribution division in 2023 (2022: 61%, 10%, 13% and 16% respectively). Europe was still the biggest market for the distribution division and sales to Europe increased by 7% compared to the year of 2022. On the other hand, sales to the US, Asia and other regions decreased by 1%, 3% and 20% respectively. 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 increased significantly by 21% from HK\$67.3 million in 2022 to HK\$81.5 million in 2023 and accounted for 7% of the consolidated revenue of the Group in 2023 (2022: 6%). During the year ended 31 December 2023, 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's operating activities continued to generate a healthy net cash inflow of HK\$68.1 million (2022: inflow of HK\$99.8 million) despite a significant decrease in the profitability of the Group in 2023. Capital expenditure was still high at HK\$63.4 million (2022: HK\$26.5 million) as the Group continued to execute its investment plan of production lines for optical lens and factory expansion of Vietnam. The net cash position of the Group (being the short-term bank deposits, bank balances and cash less bank borrowings) decreased by HK\$48.7 million from HK\$184.8 million as at 31 December 2022 to HK\$136.1 million as at 31 December 2023.

Working capital management

In line with the trend of increase in revenue during the period under review, the inventory balance and total amount of trade debtors and bills receivables balances increased by 40% and 14% respectively from HK\$129.9 million and HK\$310.5 million as at 31 December 2022 to HK\$181.4 million and HK\$353.9 million as at 31 December 2023. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 57 days in 2022 to 80 days in 2023. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 99 days in 2022 to 108 days in 2023. The credit standing of all the customers is reviewed by the Group's management regularly and we were not aware of any deterioration in credit standing of the major customers. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.4 as at 31 December 2022 to 1.2 as at 31 December 2023.

Gearing position

The Group maintained a low gearing position throughout 2023. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) increased slightly from 4% as at 31 December 2022 to 6% as at 31 December 2023. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$25.2 million as at 31 December 2023 (31 December 2022: HK\$18.3 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31 December 2023 and 31 December 2022 with equity attributable to owners of the Company of HK\$541.9 million and HK\$519.2 million as at 31 December 2023 and 31 December 2022 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31 December 2023 was HK\$1.40 (31 December 2022: HK\$1.34).

Contingent liabilities

As at 31 December 2023, the Group did not have significant contingent liabilities (31 December 2022: nil).

Charges on the Group's assets

As at 31 December 2023, the Group's investment properties and leasehold land and buildings pledged as security for the Group's bank borrowings amounted to HK\$16.5 million (31 December 2022: HK\$6.1 million). Details of bank borrowings are set out in note 15.

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the United States dollar and the Hong Kong dollar. Save as the above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars or Renminbi. The Group continues to manage foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

PROSPECTS

Market outlook

Similar to 2023, there are no signs that the global trade frictions and geopolitical military conflicts will ease off in 2024. Therefore, the business environment for eyewear industry is expected to remain tough and challenging. The Group maintains an order book of around three months' sales orders on hand.

Although the business environment in 2024 is full of uncertainties, the Group is committed to increase the contributions from its higher-margin distribution and lens businesses. The launch of AMOS system, an online optical frame and lens ordering system, at the Hong Kong Optical Fair in November 2023, will provide further growth momentum to the distribution and lens divisions.

Margin Pressure

As the majority of the Group's spending is denominated in Renminbi, we expect that the gross margin of the ODM division will reduce. This is because the management anticipates that the growth of workers' income will be in line with the ratio of GDP growth in China during 2024.

EVENTS AFTER THE REPORTING PERIOD

Discloseable transaction – Construction Contract

On 6 February 2024, Yajun Optical Manufacturing (Huizhou) Company Limited[^] (雅駿眼鏡製造(惠州)有限公司), an indirect wholly-owned subsidiary of the Company, entered into a construction contract with Guangdong Bainian Fengze Construction Engineering Company Limited[^] (廣東百年豐澤建築工程有限公司) (the “Contractor”), pursuant to which the Contractor was appointed as the contractor responsible for the construction and engineering of factory plant and ancillary facilities on the piece of land situated at Xinxu Town, Huiyang District, Huizhou City, Guangdong Province[^] (廣東省惠州市惠陽區新圩鎮), at a total consideration of RMB67.3 million (equivalent to approximately HK\$73.3 million) (subject to adjustments, if any). For details, please refer to the Company's announcement dated 6 February 2024.

Save as disclosed, there are no important events affecting the Group which have occurred after the end of financial period for the year ended 31 December 2023 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed approximately 3,700 (31 December 2022: 3,500) full time staff in Mainland China, Hong Kong, Europe, Southeast Asia 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 C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2023.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Hong Kong, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no opinion or assurance conclusion has been expressed by RSM Hong Kong on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements for the year ended 31 December 2023 have been reviewed by the Audit Committee of the Board and audited by RSM Hong Kong.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2023.

PUBLICATION OF ANNUAL REPORT

The 2023 annual report will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in late-April 2024.

DIRECTORS

As at the date of this announcement, the Board comprises eight directors, four of whom are executive directors, namely Mr. Ng Hoi Ying, Michael, Ms. Ng Yat Shan, Mr. Ng Kim Ying and Ms. Wu Zhihong and four are independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric, Mr. Lam Yu Lung and Dr. Fong Kin Kiu.

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

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

Hong Kong, 27 March 2024