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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 31ST DECEMBER, 2018

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 31st December, 2018 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2018	2017
Revenue	HK\$1,196,013,000	HK\$1,028,188,000
Loss attributable to owners of the Company	HK\$(38,294,000)	HK\$(674,549,000)
Loss per share	HK\$(0.10)	HK\$(1.76)
Final dividend per share	Nil	Nil

* *For identification purpose only*

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

For the year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	2	1,196,013	1,028,188
Cost of sales		<u>(937,947)</u>	<u>(870,675)</u>
Gross profit		258,066	157,513
Other income	3	29,265	31,307
Other gains and losses	4	38,053	(490,466)
Impairment losses	5	(4,563)	(7,487)
Gain on disposal of a subsidiary		–	29,208
Distribution and selling expenses		(37,095)	(29,863)
Administrative expenses		(311,301)	(351,318)
Other expenses		(2,245)	(1,015)
Finance costs	6	(1,133)	(4,650)
Share of profit of an associate		5,922	9,154
Share of profit of a joint venture		–	78
Loss before tax		(25,031)	(657,539)
Income tax expense	7	(9,555)	(11,408)
Loss for the year	8	(34,586)	(668,947)
Other comprehensive (expense) income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(49,375)	101,676
Release of exchange reserve upon disposal of a subsidiary		–	1,691
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		1,916	–
Total comprehensive expense for the year		<u>(82,045)</u>	<u>(565,580)</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(38,294)	(674,549)
Non-controlling interests		3,708	5,602
		<u>(34,586)</u>	<u>(668,947)</u>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(85,006)	(571,902)
Non-controlling interests		2,961	6,322
		<u>(82,045)</u>	<u>(565,580)</u>
Loss per share	10		
– Basic		<u>HK\$(0.10)</u>	<u>HK\$(1.76)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current Assets			
Investment properties		177,610	154,190
Property, plant and equipment		522,698	620,327
Prepaid lease payments		29,386	31,998
Deposits paid for acquisition of property, plant and equipment		1,315	1,409
Intangible assets		9,396	11,203
Goodwill		7,760	8,260
Interest in an associate		32,306	33,304
Interest in a joint venture		–	–
Loan receivable		–	–
Other receivables		–	787
Deferred tax assets		391	206
		780,862	861,684
Current Assets			
Inventories		182,563	158,224
Debtors, deposits and prepayments	11	355,359	289,178
Loan receivable		–	–
Other receivables		881	1,007
Prepaid lease payments		802	849
Tax recoverable		–	112
Structured deposits		–	114,911
Short-term bank deposits		–	22,982
Bank balances and cash		222,277	210,464
		761,882	797,727
Current Liabilities			
Creditors and accrued charges	12	399,115	416,264
Contract liabilities		13,363	–
Refund liabilities		4,865	–
Bank borrowings	13	30,641	56,687
Tax liabilities		9,456	9,846
		457,440	482,797
Net Current Assets		304,442	314,930
Total Assets less Current Liabilities		1,085,304	1,176,614
Capital and Reserves			
Share capital		38,626	38,365
Reserves		1,006,789	1,106,222
Equity attributable to owners of the Company		1,045,415	1,144,587
Non-controlling interests		27,867	22,232
Total Equity		1,073,282	1,166,819
Non-current Liabilities			
Deferred tax liabilities		12,022	9,795
		1,085,304	1,176,614

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2018

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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 performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18, HKAS 11 and the related interpretations.

The Group recognises revenue from the sales of optical products which arise from contracts with customers.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	<i>Note</i>	Carrying amounts previously reported at 31st December, 2017 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Carrying amounts under HKFRS 15 at 1st January, 2018 <i>HK\$'000</i>
Current liabilities				
Creditors and accrued charges	(a)	12,597	(12,597)	–
Contract liabilities	(a)	–	8,294	8,294
Refund liabilities	(a)	–	4,303	4,303

Note:

- (a) As at 1st January, 2018, receipt in advance from customers and provision for sales return previously included in creditors and accrued charges were reclassified to contract liabilities and refund liabilities respectively.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31st December, 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	<i>Note</i>	As reported <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Current liabilities				
Creditors and accrued charges	(a)	–	18,228	18,228
Contract liabilities	(a)	13,363	(13,363)	–
Refund liabilities	(a)	4,865	(4,865)	–

Note:

- (a) As at 31st December, 2018, receipt in advance from customers and provision for sales return included in creditors and accrued charges were classified as contract liabilities and refund liabilities respectively.

Impact on the consolidated statement of cash flows

	<i>Note</i>	As reported <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Operating activities				
Increase in creditors and accrued charges	(a)	6,526	5,631	12,157
Increase in contract liabilities	(a)	5,069	(5,069)	–
Increase in refund liabilities	(a)	562	(562)	–
Cash used in operations		(48,500)	–	(48,500)
Net cash used in operating activities		(56,291)	–	(56,291)

Note:

- (a) As at 31st December, 2018, receipt in advance from customers and provision for sales return included in creditors and accrued charges were classified as contract liabilities and refund liabilities respectively.

HKFRS 9 *Financial Instruments and the related Amendments*

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement:

- Debt instruments classified as loans and receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9; and
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade debtors. Except for those which had been determined as credit-impaired under HKAS 39, trade debtor with significant outstanding balance has been assessed individually, the remaining balances are grouped based on internal credit rating.

Except for those which had been determined as credit-impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables, short-term bank deposits and bank balances, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1st January, 2018, the directors of the Company (the “Directors”) reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impact on impairment was noted at the date of initial application, i.e. 1st January, 2018.

HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Group is required to determine the date of transaction for each payment or receipt of advance consideration.

On initial application, the Group applied the interpretation prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the current year, i.e. 1st January, 2018.

For foreign currency denominated advance considerations paid by the Group in relation to acquisition of property, plant and equipment and purchases of inventories amounting to HK\$128,000 and HK\$887,000 respectively, the Group recorded these advances by applying the spot exchange rate on initial recognition between the functional currency of the relevant group entity and the foreign currency. Accordingly, the application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these consolidated financial statements.

2. 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 revenues and results

The Group sells optical products directly to customers. Revenue is recognised when the customer obtains control of the goods, being when the goods have been delivered to specific location. Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 days to 120 days upon delivery.

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.

All optical products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

The following is an analysis of the Group's revenue and results by operating and reportable segment:

For the year ended 31st December, 2018

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Revenue from contracts with customers (Note)</i>					
Original design manufacturing division	495,429	331,001	95,276	10,210	931,916
Distribution division	146,022	23,166	53,813	41,096	264,097
External sales	<u>641,451</u>	<u>354,167</u>	<u>149,089</u>	<u>51,306</u>	<u>1,196,013</u>
<i>Result</i>					
Segment profit (loss)	<u>18,277</u>	<u>(2,509)</u>	<u>1,489</u>	<u>4,140</u>	21,397
Unallocated income and gains					42,355
Unallocated corporate expenses and losses					(99,003)
Interest income on bank deposits					5,431
Finance costs					(1,133)
Share of profit of an associate					<u>5,922</u>
Loss before tax					<u>(25,031)</u>

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

For the year ended 31st December, 2017

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Revenue</i>					
External sales	<u>556,438</u>	<u>298,745</u>	<u>131,539</u>	<u>41,466</u>	<u>1,028,188</u>
<i>Result</i>					
Segment (loss) profit	<u>(12,324)</u>	<u>(22,281)</u>	<u>(8,418)</u>	<u>1,312</u>	(41,711)
Unallocated income and gains					25,290
Unallocated corporate expenses and losses					(687,252)
Gain on disposal of a subsidiary					29,208
Interest income on bank deposits					12,344
Finance costs					(4,650)
Share of profit of an associate					9,154
Share of profit of a joint venture					<u>78</u>
Loss before tax					<u>(657,539)</u>

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, economic compensation, interest income, property rental income, net foreign exchange gains, increase in fair values of investment properties, finance costs, gain on disposal of a subsidiary, share of profit of an associate, share of profit of a joint venture as well as impairment losses of investment in a joint venture, and property, plant and equipment, and prepaid lease payments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

3. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Included in other income are:		
Sales of scrap materials	4,716	3,919
Sales of construction materials	–	904
Compensation from customers	4,259	5,745
Interest income on bank deposits	5,431	12,344
Gross rental income from investment properties	4,302	3,640
Government subsidy	901	1,145
	<u>4,716</u>	<u>3,919</u>

4. OTHER GAINS AND LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net foreign exchange gains	17,033	8,804
Net gain on disposal of property, plant and equipment	770	136
Increase in fair values of investment properties	20,250	12,710
Decrease in fair values of derivative financial instruments	–	(131)
Impairment loss of property, plant and equipment	–	(491,155)
Impairment loss of prepaid lease payments	–	(18,845)
Impairment loss of trademark	–	(1,700)
Impairment loss of investment in a joint venture	–	(285)
	<u>38,053</u>	<u>(490,466)</u>

5. IMPAIRMENT LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Impairment losses recognised on debtors	4,563	7,487
	<u>4,563</u>	<u>7,487</u>

6. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interests on bank borrowings	<u>1,133</u>	<u>4,650</u>

7. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The charge comprises:		
Current year:		
Hong Kong Profits Tax	2,771	3,422
The People's Republic of China (the "PRC")		
Enterprise Income Tax	825	7,480
United Kingdom Corporation Tax	1,909	1,881
France Corporation Tax	764	355
South Africa Corporation Tax	97	–
Withholding tax for dividend of an associate	1,177	–
Deferred taxation	<u>2,004</u>	<u>(1,193)</u>
	<u>9,547</u>	<u>11,945</u>
(Over)underprovision in respect of prior year:		
Hong Kong Profits Tax	(31)	(40)
PRC Enterprise Income Tax	(54)	(497)
United Kingdom Corporation Tax	10	–
France Corporation Tax	49	–
South Africa Corporation Tax	<u>34</u>	<u>–</u>
	<u>8</u>	<u>(537)</u>
	<u>9,555</u>	<u>11,408</u>

On 21st March, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both years.

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to Euro (“€”) 500,000 and a corporate tax rate of 33.33% for taxable profit above €500,000 in accordance with the relevant law and regulations in France for the year ended 31st December, 2018. The France Corporation Tax is calculated at the applicable of 33.33% for all taxable profit for the year ended 31st December, 2017.

South Africa Corporation Tax is calculated at the application rate of 28% in accordance with the relevant law and regulations in South Africa for both years.

8. LOSS FOR THE YEAR

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Amortisation of intangible assets	2,005	1,930
Auditor’s remuneration		
– Audit service	1,500	1,450
– Non-audit services	538	631
Cost of inventories recognised as an expense (included allowance for inventories of HK\$6,465,000 (2017: HK\$2,599,000))	937,947	870,675
Depreciation of the property, plant and equipment	98,707	190,247
Operating lease rentals in respect of rented premises	2,825	2,485
Release of prepaid lease payments	835	1,359
Staff costs:		
Directors’ emoluments	2,540	3,388
Other staff		
– Salaries and other allowances	472,121	453,229
– Contributions to retirement benefit schemes	55,721	36,904
Total staff costs	530,382	493,521
and after crediting:		
Gross rental income from investment properties	4,302	3,640
Less: Direct expenses of investment properties that generated rental income during the year	(752)	(774)
	3,550	2,866

9. DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
First special dividend paid of 5.0 HK cents in respect of 2018 (2017: 2.0 HK cents in respect of 2017) per share	19,183	7,673
Second special dividend paid of 25.0 HK cents per share in respect of 2016	<u>–</u>	<u>95,913</u>
	<u>19,183</u>	<u>103,586</u>

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December 2018, has been proposed by the Directors (2017: nil).

During the year, scrip dividend alternatives were offered in respect of the special dividend for the six months period ended 30th June, 2018.

10. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss for the purpose of basic loss per share		
– Loss for the year attributable to owners of the Company	<u>(38,294)</u>	<u>(674,549)</u>
	<i>Number of shares</i>	
Weighted average number of shares for the purpose of basic loss per share	<u>384,093,916</u>	<u>383,650,000</u>

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2018 and 2017.

The weighted average number of shares for the purpose of basic loss per share has been adjusted for the scrip dividend on 31st October, 2018.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade debtors from contracts with customers	394,450	326,110
Less: Allowance for credit losses	(55,394)	(51,002)
	339,056	275,108
Bills receivables	505	779
Other debtors, deposits and prepayments	15,798	13,291
	355,359	289,178

The following is an aged 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 – 90 days	234,801	192,963
91 – 180 days	101,281	76,327
More than 180 days	2,974	5,818
	339,056	275,108

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 – 90 days	495	779
91 – 180 days	10	–
	505	779

12. CREDITORS AND ACCRUED CHARGES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade creditors	113,023	98,840
Other creditors and accrued charges	286,092	317,424
	399,115	416,264

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 – 60 days	98,051	81,849
61 – 120 days	12,771	13,793
More than 120 days	2,201	3,198
	<u>113,023</u>	<u>98,840</u>

13. BANK BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Secured bank borrowings	30,641	56,687
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	5,325	26,054
– more than one year, but not exceeding two years	5,491	5,365
– more than two years, but not exceeding five years	17,522	17,003
– more than five years	2,303	8,265
	<u>30,641</u>	<u>56,687</u>
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(30,641)</u>	<u>(56,687)</u>
Amounts due after one year shown under non-current liabilities	<u>–</u>	<u>–</u>

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK\$23,046,000 (2017: HK\$27,014,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK\$177,610,000 (2017: HK\$155,455,000).

A bank borrowing of HK\$7,595,000 (2017: HK\$8,840,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$30,441,000 (2017: HK\$31,585,000) and carries interest at one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%.

At 31st December, 2017, a bank borrowing of HK\$20,833,000 was secured by the Group's leasehold land and buildings with carrying amount of HK\$35,887,000 (including leasehold land and building with carrying amount of HK\$31,585,000 as mentioned-above) and carried interest at one-month HIBOR plus 2.9%. During the year ended 31st December, 2018, this bank borrowing has been fully repaid.

14. EVENTS AFTER THE REPORTING PERIOD

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate (“Vendor”), pursuant to which Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of €787,500 (equivalent to approximately HK\$6,980,000). The transaction is expected to complete around 10th April, 2019.

At the same date, the Group entered into an option agreement with an independent third party (“Buyer”), pursuant to which Buyer and the Group granted each other reciprocal call and put options on 12.5% of the issued share capital of the Group's associate, the exercise price of the option is ranging from €1,000,000 (equivalent to approximately HK\$8,863,000) to €1,562,500 (equivalent to approximately HK\$13,848,000). Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 31st May, 2022.

The Group is in the process of assessing the financial impact and hence it is not feasible to quantify the financial impacts and the disclosure thereof to the consolidated financial statements.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2017: nil) for the year ended 31st December, 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 23rd May, 2019 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on 17th May, 2019
Closure of register of members	20th May, 2019 to 23rd May, 2019 (both dates inclusive)
Record date	23rd May, 2019

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-April 2019.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 16% to HK\$1,196.0 million in the financial year ended 31st December, 2018 (2017: HK\$1,028.2 million). Sales orders of original design manufacturing ("ODM") division grew healthily during the year because our key customers had gradually relieved their concerns in regard to the relocation of the Shenzhen manufacturing plant in 2016. For the financial year ended 31st December, 2018, the Group recorded a loss attributable to owners of the Company and loss per share of HK\$38.3 million and HK\$0.10 respectively (2017: loss attributable to owners of the Company and loss per share of HK\$674.5 million and HK\$1.76 respectively). Significant improvement of loss for the year under review mainly attributed to recognition of impairment losses of HK\$510 million in property, plant and equipment and prepaid lease payments at the year end of 2017 and there is no impairment of fixed assets was required in 2018. The depreciation charges was reduced by HK\$91.5 million compared to last year because of the signification reduction of fixed assets value after the impairment losses mentioned

above. Moreover, the Group also benefited from the positive impact on the profitability arising from economies of scale as the consolidated revenue increased by 16% in 2018 compared with 2017.

ODM division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 78% of the consolidated revenue of the Group in 2018 (2017: 75%). Sales to ODM customers increased strongly by 20% from HK\$776.1 million in 2017 to HK\$931.9 million in 2018. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 53%, 36% 10% and 1% respectively of the revenue of the ODM division in 2018 (2017: 53%, 37%, 10% and 0% respectively). There is no major fluctuation of sales by regions in 2018 compared with 2017. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2018. Sales of prescription frames, sunglasses and spare parts accounted for 51%, 46% and 3% respectively of revenue of the ODM division in 2018 (2017: 51%, 47% and 2% respectively).

Distribution division

Our distribution division continued to record sales growth in 2018. Revenue generated by the distribution division increased by 5% from HK\$252.1 million in 2017 to HK\$264.1 million in 2018 and accounted for 22% of the consolidated revenue of the Group in 2018 (2017: 25%). The Group’s house brand and licensed brand products were sold to retailers through the Group’s wholesale arms in the United Kingdom, France, China and South Africa, and independent distributors in other countries. Europe was still the biggest market but its relative proportion of sales decreased due to higher growth rates recorded for sales to other geographical markets. Sales to Europe, Asia, the US and other regions accounted for 55%, 20%, 9% and 16% respectively of the revenue of the distribution division in 2018 (2017: 58%, 20%, 6% and 16% respectively). Sales to Asia, the US and other regions were up by 5%, 48% and 4% respectively. On the other hand, sales to Europe are relatively stable in term of value compared with last year. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK\$56.3 million (2017: net cash inflow of HK\$46.1 million). The result in net cash outflow is mainly due to increase in inventory and debtors, deposits and prepayments by HK\$24.3 million and HK\$66.2 million respectively at the end of 2018 and which are in line with the strong sales growth in the year of 2018 compared with 2017. The net cash position of the Group (being the total of structure deposits, short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK\$291.7 million as at 31st December, 2017 to HK\$191.6 million as at 31st December, 2018.

Working capital management

In line with the increase in revenue during the period under review, total amounts of trade debtors and bills receivable balances increased by 23% from HK\$275.9 million as at 31st December, 2017 to HK\$339.6 million as at 31st December, 2018. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 98 days in 2017 to 104 days in 2018 which mainly driven by higher increase in sales from major ODM customers who generally had longer payment terms. Inventories balances also increased by 15% from HK\$158.2 million as at 31st December, 2017 to HK\$182.6 million as at 31st December, 2018 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2019. It also led to inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 66 days in 2017 to 71 days in 2018. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.7 to 1.0 as at both 31st December, 2017 and 31st December, 2018.

Gearing position

The Group maintained a low gearing position throughout 2018. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2018 and 31st December, 2017. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK\$12.0 million as at 31st December, 2018 (31st December, 2017: HK\$9.8 million).

Net asset value

The Company had 386,263,374 shares and 383,650,000 shares in issue as 31st December, 2018 and 31st December, 2017 with equity attributable to owners of the Company HK\$1,045.4 million and HK\$1,144.6 million as at 31st December, 2018 and 31st December, 2017 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 31st December, 2018 was HK\$2.71 (31st December, 2017: HK\$2.98).

Foreign currency exposure

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

Faced with the dual challenges of the US-China trade negotiation and the unresolved Brexit event, the business environment for our ODM business is expected to remain challenging and the market demand will still be volatile.

It is part of our continued effort to drive down the operating cost by shifting manufacturing and sourcing activities to lower-cost locations in Mainland China. In 2019, the Group plans to set up a new production facility and a sourcing office in Yingtan city of Jiangxi province. The Yingtan city is well known in the optical products industry in last twenties years because the city is abundant of optical suppliers and skillful workers with relatively lower cost compared to those in Guangdong province. The new setups will be started from a small scale and expanded gradually along with growth in sales demand in the future.

Going forward, the management will continue to build on our strong financial position and cautiously invest in our core businesses while adhering to our prudent financial discipline.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2018, the Group employed approximately 5,300 (31st December, 2017: 5,300) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31st December, 2018, except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael (“Mr. Ng”) is the founder and chairman of the Group. The Company does not at present have any officer with the title “chief executive officer” and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in the future as it believes that this ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year then ended as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements for the year ended 31st December, 2018 have been reviewed by the Audit Committee of the Board and audited by Messrs. Deloitte Touche Tohmatsu.

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 31st December, 2018.

PUBLICATION OF ANNUAL REPORT

The 2018 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 mid-April 2019.

DIRECTORS

As at the date of this announcement, the Board comprises five directors, two of whom are executive directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three are independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 28th March, 2019