ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2019

INTERIM RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2019 together with comparative figures for the corresponding period in 2018.

FINANCIAL HIGHLIGHTS

	Six months ended	
	30.6.2019	30.6.2018
Revenue	**HK$545,505,000**	HK$557,398,000
Loss attributable to owners of the Company	**HK$(54,521,000)**	HK$(24,426,000)
Loss per share	**(14.11) HK cents**	(6.37) HK cents
Interim dividend per share	**Nil**	Nil
Special dividend per share	**Nil**	5.0 HK cents

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2019

	Notes	Six months ended **30.6.2019** ***HK$'000*** **(unaudited)**	30.6.2018 *HK$'000* (unaudited)
Revenue	3	**545,505**	557,398
Cost of sales		**(442,916)**	(439,980)
Gross profit		**102,589**	117,418
Other income		**7,506**	11,382
Other gains and losses		**(252)**	19,647
Impairment losses		**(3,405)**	(294)
Distribution and selling expenses		**(15,763)**	(17,121)
Administrative expenses		**(144,946)**	(157,563)
Other expenses		**(1,309)**	(1,124)
Finance costs	4	**(456)**	(665)
Share of profit of an associate		**7,635**	5,299
Share of profit of a joint venture		**–**	155
Loss before tax		**(48,401)**	(22,866)
Income tax (expense) credit	5	**(3,474)**	320
Loss for the period	6	**(51,875)**	(22,546)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,778)**	(18,155)
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**–**	1,915
		(1,778)	(16,240)
Total comprehensive expense for the period		**(53,653)**	(38,786)
(Loss) profit for the period attributable to:			
Owners of the Company		**(54,521)**	(24,426)
Non-controlling interests		**2,646**	1,880
		(51,875)	(22,546)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(56,213)**	(40,396)
Non-controlling interests		**2,560**	1,610
		(53,653)	(38,786)
Loss per share	8		
– Basic		**(14.11) HK cents**	(6.37) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2019

	Notes	**30.6.2019** **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Non-current Assets			
Investment properties		**178,470**	177,610
Property, plant and equipment		**470,911**	522,698
Right-of-use assets		**32,045**	–
Prepaid lease payments		**–**	29,386
Deposits paid for acquisition of property, plant and equipment		**2,202**	1,315
Intangible assets		**8,683**	9,396
Goodwill		**7,713**	7,760
Interest in an associate		**44,515**	32,306
Interest in a joint venture		**–**	–
Loan receivable		**–**	–
Deferred tax assets		**431**	391
		744,970	780,862
Current Assets			
Inventories		**140,030**	182,563
Debtors, deposits and prepayments	9	**258,198**	355,359
Loan receivable		**–**	–
Other receivables		**873**	881
Prepaid lease payments		**–**	802
Bank balances and cash		**306,733**	222,277
		705,834	761,882
Current Liabilities			
Creditors and accrued charges	10	**365,914**	399,115
Contract liabilities		**8,375**	13,363
Refund liabilities		**3,287**	4,865
Bank borrowings	11	**27,989**	30,641
Lease liabilities		**985**	–
Tax liabilities		**10,608**	9,456
		417,158	457,440
Net Current Assets		**288,676**	304,442
Total Assets less Current Liabilities		**1,033,646**	1,085,304
Capital and Reserves			
Share capital		**38,626**	38,626
Reserves		**950,576**	1,006,789
Equity attributable to owners of the Company		**989,202**	1,045,415
Non-controlling interests		**30,427**	27,867
Total Equity		**1,019,629**	1,073,282
Non-current Liabilities			
Other payable		**1,388**	–
Lease liabilities		**1,631**	–
Deferred tax liabilities		**10,998**	12,022
		14,017	12,022
		1,033,646	1,085,304

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

The Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Subsequently, adjustments to fair value are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st January, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1st January, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid rent by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of HK$3,025,000 and right-of-use assets of HK$33,346,000 at 1st January, 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 2.46%.

	At 1st January, 2019
	HK$'000
Operating lease commitments disclosed as at 31st December, 2018	4,597
Lease liabilities discounted at relevant incremental borrowing rates	4,374
Less: Recognition exemption – short-term leases	(1,349)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 (i.e. as at 1st January, 2019)	3,025
Analysed as	
Current	958
Non-current	2,067
	3,025

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

	Notes	**Right-of-use assets** *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		3,025
Reclassified from prepayment of rent	(a)	133
Reclassified from prepaid lease payments	(b)	30,188
		33,346
By class:		
Land and buildings		33,346

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2019. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31st December, 2018** *HK$'000*	**Adjustments** *HK$'000*	**Carrying amounts under HKFRS 16 at 1st January, 2019** *HK$'000*
Non-current Assets				
Prepaid lease payments	(b)	29,386	(29,386)	–
Right-of-use assets		–	33,346	33,346
Current Assets				
Prepaid lease payments	(b)	802	(802)	–
Debtors, deposits and prepayments	(a)	355,359	(133)	355,226
Current Liability				
Lease liabilities		–	(958)	(958)
Non-current Liability				
Lease liabilities		–	(2,067)	(2,067)

Notes:

(a) Prepaid rent for office premises was classified as prepayment as at 31st December, 2018. Upon application of HKFRS 16, the prepaid rent was reclassified as right-of-use assets.

(b) Upfront payments for leasehold land in the The People Republic of China (the "PRC") were classified as prepaid lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$802,000 and HK$29,386,000 respectively were reclassified to right-of-use assets.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30th June, 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1st January, 2019 as disclosed above.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1st January, 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1st January, 2019. However, effective 1st January, 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect subsequent to the date of initial application.

Effective on 1st January, 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, 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 following is an analysis of the Group's revenue and results by operating and reportable segment for the period under review:

For the six months ended 30th June, 2019

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from contracts with customers (Note)					
Original design manufacturing division	**245,092**	**116,906**	**47,733**	**7,314**	**417,045**
Distribution division	**80,415**	**9,091**	**22,256**	**16,698**	**128,460**
External sales	**325,507**	**125,997**	**69,989**	**24,012**	**545,505**
Result					
Segment profit (loss)	**2,017**	**(6,927)**	**(4,740)**	**662**	**(8,988)**
Unallocated income and gains					**6,431**
Unallocated corporate expenses and losses					**(53,577)**
Interest income on bank deposits					**554**
Finance costs					**(456)**
Share of profit of an associate					**7,635**
Loss before tax					**(48,401)**

For the six months ended 30th June, 2018

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue from contracts with customers (Note)					
Original design manufacturing division	220,962	165,605	42,253	1,965	430,785
Distribution division	74,749	10,698	23,820	17,346	126,613
External sales	295,711	176,303	66,073	19,311	557,398
Result					
Segment profit (loss)	5,663	(7,423)	(2,408)	2,035	(2,133)
Unallocated income and gains					22,748
Unallocated corporate expenses and losses					(51,404)
Interest income on bank deposits					3,134
Finance costs					(665)
Share of profit of an associate					5,299
Share of profit of a joint venture					155
Loss before tax					(22,866)

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

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, property rental income, net foreign exchange gains or losses, increase in fair value of investment properties, finance costs, interest income, share of profit of an associate and share of profit of a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

4. FINANCE COSTS

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Interests on bank borrowings	**433**	665
Interests on lease liabilities	**23**	–
	456	665

5. INCOME TAX EXPENSE (CREDIT)

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
The charge comprises:		
Current period:		
Hong Kong Profits Tax	**1,055**	885
PRC Enterprise Income Tax	**48**	36
United Kingdom Corporation Tax	**1,194**	1,053
France Corporation Tax	**912**	984
South Africa Corporation Tax	**147**	146
Withholding tax for dividend of an associate	**1,140**	–
	4,496	3,104
(Over)underprovision in respect of prior periods:		
PRC Enterprise Income Tax	**(14)**	(3)
South Africa Corporation Tax	**60**	–
	46	(3)
Deferred taxation	**(1,068)**	(3,421)
	3,474	(320)

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, 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 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 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 both periods.

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.

In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed under Hong Kong Profits Tax neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both periods.

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**966**	1,029
Net impairment losses recognised on debtors	**3,405**	294
Cost of inventories recognised as an expense	**442,916**	439,980
Depreciation of property, plant and equipment	**49,852**	50,534
Depreciation of right-of-use assets	**957**	–
Net loss (gain) on disposal of property, plant and equipment (included in other gains and losses)	**1,548**	(631)
Increase in fair values of investment properties (included in other gains and losses)	**(860)**	(20,000)
Net foreign exchange (gains) losses (included in other gains and losses)	**(3,436)**	679
Release of prepaid lease payments	**–**	432
Gross rental income from investment properties (included in other income)	**(2,135)**	(2,117)
Less: Direct expenses of investment properties that generated rental income during the period	**357**	417
	(1,778)	(1,700)

7. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2019.

During the six months ended 30th June, 2019, the Board did not recommend the payment of a final dividend for the year ended 31st December, 2018. During the six months ended 30th June, 2018, the Board resolved not to declare any interim dividend but resolved to declare a special dividend of 5.0 HK cents per share (with a scrip dividend option) for the six months ended 30th June, 2018 on 30th August, 2018.

8. 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:

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share – Loss for the period attributable to owners of the Company	**(54,521)**	(24,426)
	Number of shares	
Number of shares for the purpose of basic loss per share	**386,263,374**	383,650,000

No diluted loss per share has been presented as there was no potential ordinary shares in issue for both periods.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Included in the Group's debtors, deposits and prepayments are trade debtors of HK$244,137,000 (31st December, 2018: HK$339,056,000). 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:

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
0 – 90 days	**202,681**	234,801
91 – 180 days	**34,938**	101,281
More than 180 days	**6,518**	2,974
	244,137	339,056

As at 30th June, 2019, total bills received amounting to HK$945,000 (31st December, 2018: HK$505,000) 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 received by the Group are with a maturity period of less than one year.

10. CREDITORS AND ACCRUED CHARGES

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
Trade creditors	**91,807**	113,023
Other creditors and accrued charges	**274,107**	286,092
	365,914	399,115

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

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
0 – 60 days	**83,139**	98,051
61 – 120 days	**6,239**	12,771
More than 120 days	**2,429**	2,201
	91,807	113,023

11. BANK BORROWINGS

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
Secured bank borrowings	**27,989**	30,641
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	**5,395**	5,325
– more than one year, but not exceeding two years	**5,569**	5,491
– more than two years, but not exceeding five years	**17,025**	17,522
– more than five years	**–**	2,303
	27,989	30,641
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(27,989)**	(30,641)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$21,028,000 (31st December, 2018: HK$23,046,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties with carrying amount of HK$178,470,000 (31st December, 2018: HK$177,610,000).

A bank borrowing of HK$6,961,000 (31st December, 2018: HK$7,595,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$29,868,000 (31st December, 2018: HK$30,441,000) and carries interest at one-month Hong Kong Interbank Offered Rate plus 1.8%.

DIVIDENDS

The Board has resolved not to declare any interim dividend (2018: nil) for the six months ended 30th June, 2019.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 2% to HK$545.5 million during the six months ended 30th June, 2019 (2018: HK$557.4 million). A loss of HK$54.5 million was incurred during the period under review (2018: HK$24.4 million). Loss per share was 14.11 HK cents (2018: 6.37 HK cents).

Significant increase in loss for the period under review was mainly due to decrease in fair valuation gain by HK$19.1 million on revaluation of investment properties from HK$20.0 million for the period ended 30th June, 2018 to HK$0.9 million for the period under review. Moreover, customers' sales orders and production volumes had decreased significantly in quarter two of 2019 after the President of the United States (the "US") threatened to increase tariff on US$200 billion of Chinese goods from 10% to 25% in early May of 2019. The decrease in production volume resulted in reduction of gross margin in quarter two of 2019 because of negative impact on economies of scale.

Original design manufacturing ("ODM") division

Revenue generated by the ODM division contributed 76% to the consolidated revenue of the Group in the period under review (2018: 77%). Sales to ODM customers decreased by 3% from HK$430.8 million in the first six months of 2018 to HK$417.0 million in the first six months of 2019. Geographically, sales to Europe, the US, Asia and other regions accounted for 59%, 28%, 11% and 2% respectively (2018: 51%, 38%, 10% and 1% respectively) of the revenue of the ODM division during the period under review. Sales to the US decreased significantly by 29% from HK$165.6 million in the first six months of 2018 to HK$116.9 million in the first six months of 2019 due to the increasing trade friction between China and the US 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 55%, 42% and 3% respectively of the revenue of this division during the first half of 2019 (2018: 50%, 48% and 2% respectively).

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, China and South Africa, and independent distributors in other countries. Revenue of the distribution division increased slightly by 2% to HK$128.5 million (2018: HK$126.6 million) and accounted for 24% (2018: 23%) of the consolidated revenue during the first six months of 2019. Sales to Europe, Asia, the US and other regions accounted for 63%, 17%, 7% and 13% respectively of the revenue of the distribution division in the period under review (2018: 59%, 19%, 8% and 14% respectively). There was no significant change in sales by regions.

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK$99.0 million during the period under review (2018: net cash outflow of HK$11.0 million). The result in net cash inflow was mainly due to decrease in inventory and debtors, deposit and prepayments by HK$42.5 million and HK$97.2 million respectively in the period under review. The net cash position of the Group (being the bank balances and cash less bank borrowings) increased from HK$191.6 million as at 31st December, 2018 to HK$278.7 million as at 30th June, 2019.

Working capital management

In line with the decline in revenue during the period under review, inventory balances and total amount of trade debtors and bills receivable balances decreased by 23% and 28% respectively from HK$182.6 million and HK$339.6 million as at 31st December, 2018 to HK$140.0 million and HK$245.1 million as at 30th June, 2019. Inventory turnover period (being the ratio of inventory balances to cost of sales) and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also decreased from 64 days and 95 days in the first half of 2018 to 58 days and 82 days respectively in the period under review due to gradual slowdown of business activities of the Group in the second quarter of 2019. 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, 2018 and 30th June, 2019. We expect the current ratio will remain stable in the second half of the year.

Gearing position

Despite the loss incurred by the Group in the first six months of 2019, 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 stable at around 1% as at both 30th June, 2019 and 31st December, 2018. The non-current liabilities of the Group mainly comprised deferred taxation which amounted to HK$11.0 million as at 30th June, 2019 (31st December, 2018: HK$12.0 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 30th June, 2019 and 31st December, 2018 with equity attributable to owners of the Company amounting to HK$989.2 million and HK$1,045.4 million as at 30th June, 2019 and 31st December, 2018 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 30th June, 2019 was HK$2.56 (31st December, 2018: HK$2.71).

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 notes that there is potential exposure to the rapid change of Renminbi yet the range of movement is relatively limited. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and entering into forward contracts whenever appropriate.

PROSPECTS

Market outlook

Looking forward, outlook for the second half of 2019 will be uncertain and the Group expects market demand will be weakened because the US government just announced on 23rd August, 2019 the imposition of a 15% tariff on the remaining US$300 billion Chinese goods starting on 1st September, 2019. The Group believes that the chance of optical products being removed from the final list is unlikely. Meanwhile, the Group also reckons that trade friction between the two countries will not be settled thoroughly in a short period of time whether or not the 15% tariff will be implemented on schedule.

The higher profit margin of the distribution division demonstrates its growing importance in the future development of the Group. The Group will continue to seek business opportunities to increase the contribution of this division either through establishment of our own network or forming joint ventures with strategic distribution partner(s).

Margin pressure

Although the recent depreciation of the Renminbi will definitely help to leverage the continuing growth of labour costs and other operating expenses in Mainland China, the Group will continue to focus on operating costs control and improvement of production efficiency.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2019, the Group employed approximately 5,000 (31st December, 2018: 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 six months ended 30th June, 2019, 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 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.

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (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) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (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 executive directors and senior management as well as review and approve 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 (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and determining the nomination criteria and nomination procedures of appointment of new and replacement directors, re-election of directors and nomination from shareholders.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2019.

REVIEW OF INTERIM RESULTS

The unaudited interim results and the interim report of the Group for the six months ended 30th June, 2019 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM REPORT

The 2019 interim report will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-September 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, 29th August, 2019