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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 2022  
AND  
PROPOSED ADOPTION OF THE NEW BYE-LAWS**

**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 2022 together with last year’s comparative figures.

	<b>2022</b>	2021
Revenue	<b>HK\$1,144,103,000</b>	HK\$1,152,941,000
Profit attributable to owners of the Company	<b>HK\$114,773,000</b>	HK\$20,700,000
Profit per share	<b>29.71 HK cents</b>	5.36 HK cents
Final dividend per share	<b>5.0 HK cents</b>	Nil
Special dividend per share	<b>5.0 HK cents</b>	Nil

\* *For identification purpose only*

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

*For the year ended 31 December 2022*

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>Revenue</b>	3	<b>1,144,103</b>	1,152,941
Cost of sales		<b>(831,490)</b>	(849,378)
<b>Gross profit</b>		<b>312,613</b>	303,563
Other income	4	<b>35,956</b>	22,114
Other gains and losses	5	<b>33,147</b>	(10,965)
Impairment losses	7	<b>(454)</b>	(557)
Net gain relating to the disposal of premises	16	<b>58,818</b>	–
Distribution and selling expenses		<b>(41,106)</b>	(38,150)
Administrative expenses		<b>(274,387)</b>	(246,492)
Other expenses		<b>(1,599)</b>	(1,132)
Profit from operations		<b>122,988</b>	28,381
Finance costs	8	<b>(1,554)</b>	(1,470)
Share of profit of an associate		<b>5,644</b>	5,477
<b>Profit before tax</b>		<b>127,078</b>	32,388
Income tax expense	9	<b>(7,057)</b>	(6,501)
<b>Profit for the year</b>	10	<b>120,021</b>	25,887
<b>Other comprehensive (expense)/income after tax:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		<b>259</b>	–
Fair value change of equity investment at fair value through other comprehensive income (“FVTOCI”)		–	2,896
		<b>259</b>	2,896
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>(53,068)</b>	7,246
Exchange differences arising on translation of an associate		<b>(2,432)</b>	(3,452)
Realisation of exchange reserve upon partial disposal of investment in an associate		–	501
		<b>(55,500)</b>	4,295
<b>Other comprehensive (expense)/income for the year, net of tax</b>		<b>(55,241)</b>	7,191
<b>Total comprehensive income for the year</b>		<b>64,780</b>	33,078

	<i>Note</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Profit for the year attributable to:</b>			
Owners of the Company		<b>114,773</b>	20,700
Non-controlling interests		<b>5,248</b>	5,187
		<u><b>120,021</b></u>	<u>25,887</u>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		<b>65,713</b>	27,574
Non-controlling interests		<b>(933)</b>	5,504
		<u><b>64,780</b></u>	<u>33,078</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>Profit per share</b>			
Basic and diluted	12	<u><b>29.71</b></u>	<u>5.36</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	<i>Notes</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties		<b>87,316</b>	142,400
Property, plant and equipment		<b>207,214</b>	203,400
Deposits paid for acquisition of property, plant and equipment		<b>38,726</b>	1,931
Intangible assets		<b>21,873</b>	28,617
Goodwill		<b>25,293</b>	28,331
Investment in an associate		<b>39,869</b>	37,303
Investments in joint ventures		<b>1,306</b>	–
Equity investments at FVTOCI		<b>7,666</b>	–
Equity investment at fair value through profit or loss (“FVTPL”)		–	13,875
Contingent consideration receivable		<b>57</b>	965
Deferred tax assets		<b>6,411</b>	5,901
		<u><b>435,731</b></u>	<u>462,723</u>
<b>Current assets</b>			
Inventories		<b>129,898</b>	179,232
Debtors, deposits and prepayments	13	<b>334,370</b>	339,242
Tax recoverable		<b>292</b>	53
Short-term bank deposits		<b>1,156</b>	4,623
Bank balances and cash		<b>189,710</b>	136,956
		<u><b>655,426</b></u>	<u>660,106</u>
<b>Current liabilities</b>			
Creditors and accrued charges	14	<b>429,355</b>	460,877
Contract liabilities		<b>8,458</b>	9,206
Refund liabilities		<b>7,200</b>	6,555
Consideration payable		–	417
Lease liabilities		<b>2,332</b>	4,243
Bank borrowings	15	<b>6,075</b>	66,573
Tax liabilities		<b>9,396</b>	9,590
		<u><b>462,816</b></u>	<u>557,461</u>
<b>Net current assets</b>		<u><b>192,610</b></u>	<u>102,645</u>
<b>Total assets less current liabilities</b>		<u><b>628,341</b></u>	<u>565,368</u>

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Non-current liabilities</b>		
Consideration payable	556	556
Lease liabilities	3,550	8,563
Deferred tax liabilities	18,286	15,917
	<u>22,392</u>	<u>25,036</u>
<b>NET ASSETS</b>	<u><b>605,949</b></u>	<u>540,332</u>
<b>Capital and reserves</b>		
Share capital	38,626	38,626
Reserves	480,591	415,007
	<u>519,217</u>	<u>453,633</u>
Equity attributable to owners of the Company	519,217	453,633
Non-controlling interests	86,732	86,699
<b>TOTAL EQUITY</b>	<u><b>605,949</b></u>	<u>540,332</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 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 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards or annual improvements.

### 3. REVENUE

#### Disaggregation of revenue

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15 Revenue from Contracts with Customers</b>		
Disaggregated by major products or service lines		
– Original design manufacturing division	817,070	863,537
– Distribution division	259,765	233,696
– Lens division	67,268	55,708
	<u>1,144,103</u>	<u>1,152,941</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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Compensation from customers	5,208	3,149
Dividend income from equity investment at FVTPL	–	248
Government subsidy	5,200	2,230
Gross rental income from investment properties	3,921	2,148
Interest income on bank deposits	430	257
Product development income	6,865	3,254
Sales of scrap materials	2,408	4,482
Sales of raw materials	2,554	2,720
Sales of sample and mould	1,253	–
Subcontracting fee income	660	–
Other rental income	2,815	–
Others	4,642	3,626
	<u>35,956</u>	<u>22,114</u>

#### 5. OTHER GAINS AND LOSSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net foreign exchange gain/(losses)	30,154	(24,098)
Net gain on disposal of property, plant and equipment	1,874	719
Increase in fair values of investment properties	2,665	1,910
Increase in fair value of equity investment at FVTPL	–	5,000
Net fair values change of derivative financial instruments at exercise date	–	2,688
Gain on partial disposal of investment in an associate	–	2,731
Gain on partial disposal of investment in a joint venture	–	85
Decrease in fair value of contingent consideration receivable	(908)	–
Gain on lease modifications	133	–
Loss on disposal of equity investment at FVTPL	(771)	–
	<u>33,147</u>	<u>(10,965)</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, dividend income, interest income, property rental income, net foreign exchange gain or losses, increase in fair values of investment properties, increase in fair value of equity investment at FVTPL, net increase in fair values of derivative financial instruments, loss on disposal of equity investment at FVTPL, net gain relating to the disposal of premises, gains on partial disposal of investment in an associate and a joint venture, finance costs and share of profit of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

### 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>
<b>For the year ended 31 December 2022</b>					
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					
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 the 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>

	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 2021					
Original design manufacturing division	503,633	251,955	87,422	20,527	863,537
Distribution division	150,784	26,903	26,902	29,107	233,696
Lens division	–	–	55,708	–	55,708
	<u>654,417</u>	<u>278,858</u>	<u>170,032</u>	<u>49,634</u>	<u>1,152,941</u>
Revenue from external customers					
Segment profit	<u>34,072</u>	<u>13,866</u>	<u>8,512</u>	<u>4,460</u>	60,910
Unallocated income and gains					15,530
Unallocated corporate expenses and losses					(48,316)
Interest income on bank deposits					257
Finance costs					(1,470)
Share of profit of an associate					<u>5,477</u>
Profit before tax					<u><u>32,388</u></u>

#### 7. IMPAIRMENT LOSSES

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Impairment loss recognised on debtors	<b>454</b>	276
Impairment loss recognised on intangible assets	–	281
	<u><b>454</b></u>	<u>557</u>

#### 8. FINANCE COSTS

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank borrowings	<b>984</b>	736
Interest on lease liabilities	<b>570</b>	734
	<u><b>1,554</b></u>	<u>1,470</u>

## 9. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current year:		
Hong Kong Profits Tax	2,872	2,059
United Kingdom Corporation Tax	2,454	3,163
France Corporation Tax	(176)	276
South Africa Corporation Tax	51	185
Italy Corporation Tax	37	–
Vietnam Corporation Tax	12	–
Deferred taxation	1,800	117
	<u>7,050</u>	<u>5,800</u>
(Over)/underprovision in respect of prior year:		
Hong Kong Profits Tax	(10)	399
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	12	305
United Kingdom Corporation Tax	15	(3)
South Africa Corporation Tax	(10)	–
	<u>7</u>	<u>701</u>
	<u><u>7,057</u></u>	<u><u>6,501</u></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 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 25% (2021: 26.5%) 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% in accordance with the relevant law and regulations in South Africa for both years.

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

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

## 10. PROFIT FOR THE YEAR

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	4,611	4,251
Impairment loss recognised on debtors	454	276
Impairment loss recognised on intangible assets	–	281
Auditors' remuneration:		
– Audit service	1,555	1,480
– Non-audit services	349	658
Cost of inventories recognised as an expense	831,490	849,378
Depreciation of property, plant and equipment	28,720	15,906
Increase in fair values of investment properties	(2,665)	(1,910)
Net fair values change of derivative financial instruments at exercise date	–	(2,688)
Increase in fair value of equity investment at FVTPL	–	(5,000)
Allowance for/(write back of) inventories (included in cost of sales)	4,707	(9,610)
Written-off of the consideration receivable from the disposal of equity investment at FVTOCI	2,329	–
Operating leases rentals in respect of rented premises	53	190
Direct operating expenses of investment properties that did not generate rental income	1,107	722
Direct operating expenses of investment properties that generate rental income	482	658
Staff costs:		
Directors' and chief executive officer's emoluments	3,785	3,600
Other staff		
– Salaries, bonuses and allowances	372,423	381,491
– Retirement benefit scheme contributions	65,590	30,016
Total staff costs	<u>441,798</u>	<u>415,107</u>

Cost of inventories sold includes staff costs and depreciation of approximately HK\$244,611,000 (2021: HK\$232,580,000) which are included in the amounts disclosed separately above.

## 11. DIVIDENDS

A final dividend of 5.0 HK cents in respect of 2022 (2021: nil) per share and a special dividend of 5.0 HK cents in respect of 2022 (2021: nil) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 12. PROFIT PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the purpose of basic profit per share		
– Profit for the year attributable to owners of the Company	<u>114,773</u>	<u>20,700</u>
	2022 <i>Number of shares</i>	2021 <i>Number of shares</i>
Weighted average number of shares for the purpose of basic profit per share	<u>386,263,374</u>	<u>386,263,374</u>

No diluted profit per share has been presented as there was no potential ordinary shares in issue during 2022 and 2021.

## 13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade debtors from contracts with customers	316,549	317,327
Less: Allowance for credit losses	<u>(6,323)</u>	<u>(5,904)</u>
	310,226	311,423
Bills receivables	254	147
Other debtors, deposits and prepayments	<u>23,890</u>	<u>27,672</u>
	334,370	339,242
Total debtors, deposits and prepayments	<u>334,370</u>	<u>339,242</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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 - 90 days	213,375	236,178
91 - 180 days	89,505	69,895
More than 180 days	<u>7,346</u>	<u>5,350</u>
	<u>310,226</u>	<u>311,423</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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 - 90 days	<u>254</u>	<u>147</u>

#### 14. CREDITORS AND ACCRUED CHARGES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade creditors	116,857	155,862
Other creditors and accrued charges	312,498	305,015
	<u>429,355</u>	<u>460,877</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 - 60 days	102,920	105,142
61 - 120 days	8,438	42,787
More than 120 days	5,499	7,933
	<u>116,857</u>	<u>155,862</u>

#### 15. BANK BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Secured bank borrowings	6,075	14,087
Guaranteed bank borrowings	–	52,486
	<u>6,075</u>	<u>66,573</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	4,531	58,320
More than one year, but not exceeding two years	1,544	5,981
More than two years, but not exceeding five years	–	2,272
	<u>6,075</u>	<u>66,573</u>
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(6,075)</u>	<u>(66,573)</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\$6,075,000 (2021: HK\$10,490,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties and leasehold land and buildings with carrying amount of HK\$142,737,000 (2021: HK\$142,400,000).

At 31 December 2021, a bank borrowing of HK\$3,597,000 was secured by the Group's leasehold land and buildings with carrying amount of HK\$27,006,000 and carried interest at one month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%.

Guaranteed borrowings from banks, for which the Company and certain of its subsidiaries have provided joint liability corporate and cross guarantee, carry interests at HIBOR or London Interbank Offered Rate plus certain basis points.

## 16. NET GAIN RELATING TO THE DISPOSAL OF PREMISES

Sin Dak Industrial Limited, an indirect wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement and a formal agreement for sale and purchase with Jointwill Corporation Limited on 13 April 2022 and 6 May 2022 respectively in relation to the disposal of the land and buildings occupied by the Group as its office and warehouse in Hong Kong (the "Disposal") at a consideration of HK\$90,600,000, details of which are disclosed in the Company's announcement dated 13 April 2022 and circular dated 25 July 2022.

The following is an analysis of the net gain on the Disposal recognised during the year ended 31 December 2022:

	<i>HK\$'000</i>
Sale proceed	90,600
Less: Carrying amounts of land and buildings	(30,302)
Direct expenses relating to the Disposal	(1,480)
	<u>58,818</u>

## **DIVIDENDS**

The Board has resolved to recommend the payment of a final dividend of 5.0 HK cents (2021: nil) per share, and a special dividend of 5.0 HK cents (2021: nil) per share for the year ended 31 December 2022. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 8 June 2023 (the “AGM”), the final dividend and special dividend will be payable on or about 30 June 2023 to shareholders whose names appear on the register of members of the Company at the close of business on 15 June 2023.

## **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 and special 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 2 June 2023
Closure of register of members	5 June 2023 to 8 June 2023 (both dates inclusive)
Record date	8 June 2023

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

Latest time to lodge transfer documents for registration	4:30 p.m. on 13 June 2023
Closure of register of members	14 June 2023 to 15 June 2023 (both dates inclusive)
Record date	15 June 2023

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 and special 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](http://www.artsgroup.com) and Hong Kong Exchanges and Clearing Limited’s HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) in late-April 2023.

## **BUSINESS REVIEW**

### **Profitability analysis**

The Group has recorded a slight decrease in its consolidated revenue by 1% to HK\$1,144.1 million in the financial year ended 31 December 2022 (2021: HK\$1,152.9 million). For the year under review, the Group recorded a profit attributable to owners of the Company and a profit per share of HK\$114.8 million and 29.71 HK cents respectively (2021: HK\$20.7 million and 5.36 HK cents respectively).

The substantial improvement in the Group's profitability was mainly due to the following factors:

- (a) the Group had recognised a net gain of approximately HK\$58.8 million on disposal of a property owned by Sin Dak Industrial Limited, an indirect wholly-owned subsidiary of the Company, to Jointwill Corporation Limited. For further details, please refer to the announcement of the Company dated 13 April 2022 and the circular of the Company dated 25 July 2022;
- (b) improvement in gross profit margin mainly resulted from the continuous improvement in operation efficiency and supply chain synergy; and
- (c) rise in net gain on foreign exchange mainly driven by the depreciation of Renminbi against United States Dollar.

### **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 2022 (2021: 75%). Sales to ODM customers decreased moderately by 5% from HK\$863.5 million in 2021 to HK\$817.1 million in 2022. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 60%, 24%, 14% and 2% respectively of the revenue of the ODM division in 2022 (2021: 58%, 29%, 10% and 3% respectively). Sales to Europe, the US and other regions reduced by 2%, 23% and 13% respectively whereas sales to Asia was up by 27% in 2022. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2022. Sales of prescription frames, sunglasses and spare parts accounted for 44%, 51% and 5% respectively of revenue of the ODM division in 2022 (2021: 56%, 40% and 4% respectively).

## **Distribution division**

Revenue generated from the distribution division increased by 11% from HK\$233.7 million in 2021 to HK\$259.7 million in 2022 and accounted for 23% of the consolidated revenue of the Group in 2022 (2021: 20%). 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 and South Africa, and independent distributors in other countries. Sales to Europe, the US, Asia and other regions accounted for 61%, 10%, 13% and 16% respectively of the revenue of the distribution division in 2022 (2021: 65%, 12%, 11% and 12% respectively). Europe was still the biggest market for the distribution division and sales to Europe, Asia and other regions increased by 5%, 31% and 42% respectively. On the other hand, sales to the US decreased by 5% compared to the year of 2021. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

## **Lens division**

Revenue for the lens division was HK\$67.3 million (2021: HK\$55.7 million) and accounted for 6% (2021: 5%) of the consolidated revenue of the Group in 2022. During the year ended 31 December 2022, the revenue for the lens division is generated solely from Asia and the Group plans to gradually expand its lens business to other regions.

## **Financial position and liquidity**

### *Cash flows*

The Group recorded a net cash inflow from operating activities of HK\$99.8 million (2021: outflow of HK\$44.8 million). The result in net cash inflow was mainly resulted from the significant increase in profitability of the Group. Moreover, the net proceeds of HK\$89.1 million from the disposal of the aforesaid property had also significantly increased the cash balance of the Group. The net cash position of the Group (being the short-term bank deposits, bank balances and cash less bank borrowings) increased by HK\$109.8 million from HK\$75.0 million as at 31 December 2021 to HK\$184.8 million as at 31 December 2022.

### *Working capital management*

In line with the trend of decrease in revenue during the period under review, the inventory balance and total amount of trade debtors and bills receivable balances decreased by 28% and 0.3% respectively from HK\$179.2 million and HK\$311.6 million as at 31 December 2021 to HK\$129.9 million and HK\$310.5 million as at 31 December 2022. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased from 77 days in 2021 to 57 days in 2022. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) remained at 99 days in 2022 and which was the same as the year of 2021 because the revenue between the year of 2022 and 2021 were at about the same level. 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 increased from 1.2 as at 31 December 2021 to 1.4 as at 31 December 2022.

### *Gearing position*

The Group maintained a low gearing position throughout 2022. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) decreased slightly from 6% as at 31 December 2021 to 4% as at 31 December 2022. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$18.3 million as at 31 December 2022 (31 December 2021: HK\$15.9 million).

### *Net asset value*

The Company had 386,263,374 shares in issue as at both 31 December 2022 and 31 December 2021 with equity attributable to owners of the Company of HK\$519.2 million and HK\$453.6 million as at 31 December 2022 and 31 December 2021 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31 December 2022 was HK\$1.34 (31 December 2021: HK\$1.17).

### *Contingent liabilities*

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

### *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**

Due to global trade frictions and geopolitical uncertainties, together with increases in interest rate to dampen inflation, the business environment for eyewear industry is expected to be tough and challenging. Economists generally predict weak economy growth worldwide in 2023.

### **Margin Pressure**

As the majority of the Group's spending were denominated in Renminbi, we expected that the gross margin of the ODM division will retrogress moderately resulted from the trend of appreciation in Renminbi since November 2022. On the other hand, the higher profit margins of the lens and distribution divisions demonstrate their growing importance in the future development of the Group. The Group will continue to seek business opportunities to increase the contribution of these businesses through strengthening distribution networks and establishing various e-commerce channels.

## **EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed herein, there are no important events affecting the Group which have occurred after the end of financial period for the year ended 31 December 2022 and up to the date of this announcement.

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 31 December 2022, the Group employed approximately 3,500 (31 December 2021: 3,700) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

## **CORPORATE GOVERNANCE**

The Company has complied with all applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) throughout the year ended 31 December 2022.

## **SCOPE OF WORK OF RSM HONG KONG**

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 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 2022 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 2022.

## **PUBLICATION OF ANNUAL REPORT**

The 2022 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](http://www.artsgroup.com) and Hong Kong Exchanges and Clearing Limited's HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) in late-April 2023.

## **PROPOSED ADOPTION OF THE NEW BYE-LAWS**

Pursuant to the Consultation Conclusions on Listing Regime for Overseas Issuers published by the Stock Exchange in November 2021, the Listing Rules have been amended with effect from 1 January 2022 which requires, among others, listed issuers to adopt a uniform set of 14 "Core Standards" for shareholder protections for issuers. The Board proposes to amend the existing Bye-laws of the Company (the "Existing Bye-laws") by way of adopting set of new Bye-laws of the Company (the "New Bye-laws") in substitution for and to the exclusion of the Existing Bye-laws for the purposes of (i) bringing the Existing Bye-laws in line with the amendments made to the Listing Rules (in particular to conform to the core shareholder protection standards as set out in Appendix 3 to the Listing Rules) and applicable laws of Bermuda; and (ii) making certain minor housekeeping amendments to the Existing Bye-laws (the "Proposed Amendments").

The Proposed Amendments and the proposed adoption of the New Bye-laws are subject to approval of the shareholders of the Company by way of special resolution at the AGM. A circular reflecting, among other matters to be tabled at the AGM, further details of the Proposed Amendments, the adoption of the New Bye-laws and the notice of the AGM will be despatched to the Shareholders on in due course in accordance with the Listing Rules.

## **DIRECTORS**

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

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

Hong Kong, 29 March 2023