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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, 2019**

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, 2019 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2019	2018
Revenue	HK\$1,040,962,000	HK\$1,196,013,000
Loss attributable to owners of the Company	HK\$(136,292,000)	HK\$(38,294,000)
Loss per share	(35.28) HK cents	(9.97) HK cents
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, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	3	1,040,962	1,196,013
Cost of sales		(861,625)	(937,947)
Gross profit		179,337	258,066
Other income	4	16,909	29,265
Other gains and losses	5	(5,444)	38,053
Impairment losses	7	(9,640)	(4,563)
Distribution and selling expenses		(32,302)	(37,095)
Administrative expenses		(281,214)	(311,301)
Other expenses		(1,743)	(2,245)
Loss from operations		(134,097)	(29,820)
Finance costs	8	(886)	(1,133)
Share of profit of an associate		5,700	5,922
Loss before tax		(129,283)	(25,031)
Income tax expense	9	(2,470)	(9,555)
Loss for the year	10	(131,753)	(34,586)
Other comprehensive (expense)/income after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation increase upon transfer from property, plant and equipment to investment properties		—	1,916
		—	1,916
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(10,914)	(47,623)
Exchange differences arising on translation of an associate		(1,388)	(1,752)
		(12,302)	(49,375)
Other comprehensive expense for the year, net of tax		(12,302)	(47,459)
Total comprehensive expense for the year		(144,055)	(82,045)
(Loss)/profit for the year attributable to:			
Owners of the Company		(136,292)	(38,294)
Non-controlling interests		4,539	3,708
		(131,753)	(34,586)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(148,757)	(85,006)
Non-controlling interests		4,702	2,961
		(144,055)	(82,045)
		HK cents	HK cents
Loss per share			
Basic and diluted	12	(35.28)	(9.97)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties		171,920	177,610
Property, plant and equipment		458,142	522,698
Prepaid land lease payments		–	29,386
Deposits paid for acquisition of property, plant and equipment		4,931	1,315
Intangible assets		8,149	9,396
Goodwill		7,987	7,760
Investment in an associate		38,160	32,306
Investment in a joint venture		–	–
Loan receivable		–	–
Derivative financial instrument		288	–
Deferred tax assets		3,297	391
		692,874	780,862
Current assets			
Inventories		141,363	182,563
Debtors, deposits and prepayments	13	273,150	355,359
Loan receivable		–	–
Other receivables		–	881
Prepaid land lease payments		–	802
Bank balances and cash		241,640	222,277
		656,153	761,882
Current liabilities			
Creditors and accrued charges	14	348,097	399,115
Contract liabilities		12,253	13,363
Refund liabilities		3,287	4,865
Lease liabilities		688	–
Bank borrowings	15	25,304	30,641
Derivative financial instrument		7,246	–
Tax liabilities		11,428	9,456
		408,303	457,440
Net current assets		247,850	304,442
Total assets less current liabilities		940,724	1,085,304
Non-current liabilities			
Consideration payable		1,388	–
Lease liabilities		1,377	–
Deferred tax liabilities		9,365	12,022
		12,130	12,022
NET ASSETS		928,594	1,073,282
Capital and reserves			
Share capital		38,626	38,626
Reserves		858,032	1,006,789
Equity attributable to owners of the Company		896,658	1,045,415
Non-controlling interests		31,936	27,867
TOTAL EQUITY		928,594	1,073,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

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 Hong Kong Companies Ordinance (Cap. 622).

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

Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 *Leases* (“HKFRS 16”), and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 *Leases*

HKFRS 16 supersedes HKAS 17 *Leases* (“HKAS 17”), and the related interpretations, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1st January, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January, 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1st January, 2019. For contracts entered into before 1st January, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The average incremental borrowing rates applied by the relevant group entities range from 1.75% to 10.25%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December, 2019;
- (ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;
- (iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to an impairment review.

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.

The following table reconciles the operating lease commitments as at 31st December, 2018 to the opening balance for lease liabilities recognised as at 1st January, 2019:

	<i>HK\$'000</i>
Operating lease commitments disclosed as at 31st December, 2018	4,597
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31st December, 2019	(1,349)
	3,248
Less: total future interest expenses	(223)
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities as at 1st January, 2019	3,025
Of which are:	
Current lease liabilities	958
Non-current lease liabilities	2,067
	3,025

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31st December, 2018.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* 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.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Notes	Effects of adoption of HKFRS 16			Carrying amount as at 1st January, 2019 HK\$'000
		Carrying amount as at 31st December, 2018 HK\$'000	Reclassification HK\$'000	Recognition of leases HK\$'000	
Assets					
Property, plant and equipment		522,698	30,321	3,025	556,044
Debtors, deposits and prepayment	(i)	355,359	(133)	–	355,226
Prepaid land lease payments	(ii)	30,188	(30,188)	–	–
Liabilities					
Lease liabilities		–	–	(3,025)	(3,025)

Notes:

- (i) 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 included in property, plant and equipment.
- (ii) Upfront payments for leasehold lands in the People's Republic of China (excluding Hong Kong) (the "PRC") own used properties were classified as prepaid land lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to HK\$802,000 and HK\$29,386,000 respectively were reclassified to right-of-use assets included in property, plant and equipment.

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1st January, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial results and cash flows for the year ended 31st December, 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
			Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note 1) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Financial results for the year ended 31st December, 2019 impacted by the adoption of HKFRS 16:	Amounts reported under HKFRS 16 HK\$'000	Add back: HKFRS 16 depreciation and interest expense HK\$'000			
Loss from operations	(134,097)	1,897	(1,928)	(134,128)	(29,820)
Finance costs	(886)	45	–	(841)	(1,133)
Loss before tax	(129,283)	1,942	(1,928)	(129,269)	(25,031)
Loss for the year	(131,753)	1,942	(1,928)	(131,739)	(34,586)

Line items in the consolidated statement of cash flows for the year ended 31st December, 2019 impacted by the adoption of HKFRS 16:	2019		2018	
	Amounts reported under HKFRS 16 <i>HK\$'000</i>	Estimated amounts related to operating leases as if under HKAS 17 (Notes 1&2) <i>HK\$'000</i>	Hypothetical amounts for 2019 as if under HKAS 17 <i>HK\$'000</i>	Compared to amounts reported for 2018 under HKAS 17 <i>HK\$'000</i>
Cash generated from/(used in) operations	56,937	(1,003)	55,934	(48,500)
Net cash generated from/(used in) operating activities	52,016	(1,003)	51,013	(56,291)
Interest paid on lease liabilities	(45)	45	–	–
Repayments of lease liabilities	(958)	958	–	–
Net cash used in financing activities	(6,867)	1,003	(5,864)	(37,718)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that related to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there was no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(d) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation. The adoption of HKFRS 16 does not have a significant impact on the Group’s consolidated financial statements as the Group previously elected to apply HKAS 40 *Investment Properties* to account for all of its leasehold properties that were held for investment purposes as at 31st December, 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

3. REVENUE

Disaggregation of revenue

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15 <i>Revenue from Contracts with Customers</i>		
Disaggregated by major products or service lines		
– Original design manufacturing division	775,342	931,916
– Distribution division	265,620	264,097
	<u>1,040,962</u>	<u>1,196,013</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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Compensation from customers	4,922	4,259
Government subsidy	190	901
Gross rental income from investment properties	4,382	4,302
Imputed interest income on other receivables	71	137
Interest income on bank deposits	840	5,431
Sales of scrap materials	3,102	4,716
Others	3,402	9,519
	<u>16,909</u>	<u>29,265</u>

5. OTHER GAINS AND LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net foreign exchange gains	9,435	17,033
Net (loss)/gain on disposal of property, plant and equipment	(2,231)	770
(Decrease)/increase in fair values of investment properties	(5,690)	20,250
Net decrease in fair values of derivative financial instruments	(6,958)	–
	<u>(5,444)</u>	<u>38,053</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 profits or losses represent the profit earned by or loss from each segment without allocation of central administration costs, directors’ emoluments, interest income, property rental income, net foreign exchange gains, increase or decrease in fair values of investment properties, net decrease in fair values of derivative financial instruments, 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 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.

Information about operating segment profit or loss:

	Europe HK\$’000	United States HK\$’000	Asia HK\$’000	Other regions HK\$’000	Total HK\$’000
For the year ended 31st December, 2019					
Original design manufacturing division	482,158	201,927	76,712	14,545	775,342
Distribution division	152,105	22,813	51,615	39,087	265,620
Revenue from external customers	634,263	224,740	128,327	53,632	1,040,962
Segment (loss)/profit	(18,679)	(17,807)	(5,058)	2,261	(39,283)
Unallocated income and gains					14,150
Unallocated corporate expenses and losses					(109,804)
Interest income on bank deposits					840
Finance costs					(886)
Share of profit of an associate					5,700
Loss before tax					(129,283)

	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 31st December, 2018					
Original design manufacturing division	495,429	331,001	95,276	10,210	931,916
Distribution division	<u>146,022</u>	<u>23,166</u>	<u>53,813</u>	<u>41,096</u>	<u>264,097</u>
Revenue from external customers	<u>641,451</u>	<u>354,167</u>	<u>149,089</u>	<u>51,306</u>	<u>1,196,013</u>
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><u>(25,031)</u></u>

7. IMPAIRMENT LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Impairment losses recognised on debtors	<u><u>9,640</u></u>	<u><u>4,563</u></u>

8. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interests on bank borrowings	841	1,133
Interests on lease liabilities	<u>45</u>	<u>—</u>
	<u><u>886</u></u>	<u><u>1,133</u></u>

9. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current year:		
Hong Kong Profits Tax	2,677	2,771
PRC Enterprise Income Tax	274	825
United Kingdom Corporation Tax	2,089	1,909
France Corporation Tax	609	764
South Africa Corporation Tax	250	97
Dividend withholding tax	2,090	1,177
Deferred taxation	(5,565)	2,004
	<u>2,424</u>	<u>9,547</u>
(Over)/underprovision in respect of prior year:		
Hong Kong Profits Tax	–	(31)
PRC Enterprise Income Tax	(14)	(54)
United Kingdom Corporation Tax	–	10
France Corporation Tax	–	49
South Africa Corporation Tax	60	34
	<u>46</u>	<u>8</u>
	<u><u>2,470</u></u>	<u><u>9,555</u></u>

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax 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 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 (“EUR”) 500,000 and a corporate tax rate of 33.33% for taxable profit above EUR500,000 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.

10. LOSS FOR THE YEAR

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	2,110	2,005
Impairment losses recognised on debtors	9,640	4,563
Auditors' remuneration:		
– Audit service	1,300	1,500
– Non-audit services	512	538
Cost of inventories recognised as an expense	861,625	937,947
Depreciation of the property, plant and equipment	98,383	98,707
Decrease/(increase) in fair values of investment properties	5,690	(20,250)
Net decrease in fair values of derivative financial instruments	6,958	–
(Write back of)/allowance for inventories (included in cost of sales)	(10,165)	6,465
Operating leases rentals in respect of rented premises	1,797	2,825
Direct operating expenses of investment properties that did not generate rental income	1,158	1,255
Direct operating expenses of investment properties that generate rental income	752	752
Release of prepaid land lease payments	–	835
Staff costs:		
Directors' emoluments	2,535	2,540
Other staff		
– Salaries, bonuses and allowances	433,978	472,121
– Retirement benefit scheme contributions	36,688	55,721
Total staff costs	<u>473,201</u>	<u>530,382</u>

Cost of inventories sold includes staff costs and depreciation of approximately HK\$327,028,000 (2018: HK\$366,179,000) which are included in the amounts disclosed separately above.

11. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
No special dividend paid in respect of 2019 (2018: 5.0 HK cents per share in respect of 2018)	<u>–</u>	<u>19,183</u>

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December, 2019 has been proposed by the directors of the Company (2018: nil).

During the year ended 31st December, 2018, scrip dividend alternatives were offered in respect of the special dividend for the six months period ended 30th June, 2018.

12. LOSS PER SHARE

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

	2019 HK\$'000	2018 HK\$'000
Loss for the purpose of basic loss per share		
– Loss for the year attributable to owners of the Company	<u>(136,292)</u>	<u>(38,294)</u>
	2019 Number of shares	2018
Weighted average number of shares for the purpose of basic loss per share	<u>386,263,374</u>	<u>384,093,916</u>

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.

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2019 and 2018.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2019 HK\$'000	2018 HK\$'000
Trade debtors from contracts with customers	305,536	394,450
Less: Allowance for credit losses	<u>(61,749)</u>	<u>(55,394)</u>
	243,787	339,056
Bills receivables	1,126	505
Other debtors, deposits and prepayments	<u>28,237</u>	<u>15,798</u>
Total debtors, deposits and prepayments	<u>273,150</u>	<u>355,359</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:

	2019 HK\$'000	2018 HK\$'000
0 – 90 days	182,242	234,801
91 – 180 days	51,875	101,281
More than 180 days	<u>9,670</u>	<u>2,974</u>
	<u>243,787</u>	<u>339,056</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:

	2019 HK\$'000	2018 <i>HK\$'000</i>
0 – 90 days	1,126	495
91 – 180 days	–	10
	<u>1,126</u>	<u>505</u>

14. CREDITORS AND ACCRUED CHARGES

	2019 HK\$'000	2018 <i>HK\$'000</i>
Trade creditors	90,633	113,023
Other creditors and accrued charges	257,464	286,092
	<u>348,097</u>	<u>399,115</u>

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

	2019 HK\$'000	2018 <i>HK\$'000</i>
0 – 60 days	81,618	98,051
61 – 120 days	6,676	12,771
More than 120 days	2,339	2,201
	<u>90,633</u>	<u>113,023</u>

15. BANK BORROWINGS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Secured bank borrowings	<u>25,304</u>	<u>30,641</u>
The bank borrowings are repayable as follows (<i>Note</i>):		
Within one year	5,486	5,325
More than one year, but not exceeding two years	5,658	5,491
More than two years, but not exceeding five years	14,160	17,522
More than five years	<u>–</u>	<u>2,303</u>
	25,304	30,641
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	<u>(25,304)</u>	<u>(30,641)</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\$18,979,000 (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\$171,920,000 (2018: HK\$177,610,000).

A bank borrowing of HK\$6,325,000 (2018: HK\$7,595,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$29,296,000 (2018: HK\$30,441,000) and carries interest at one month Hong Kong Interbank Offered Rate plus 1.8%.

DIVIDENDS

The Board did not recommend the payment of a final dividend (2018: nil) for the year ended 31st December, 2019.

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 3rd June, 2020 (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 28th May, 2020
Closure of register of members	29th May, 2020 to 3rd June, 2020 (both dates inclusive)
Record date	3rd June, 2020

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 54, 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 late-April 2020.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 13% to HK\$1,041.0 million in the financial year ended 31st December, 2019 (2018: HK\$1,196.0 million). During the year under review, sales of original design manufacturing ("ODM") division in the United States (the "US") market decreased significantly because of the trade dispute and the additional import tariff levied by the US to China. For the financial year ended 31st December, 2019, the Group recorded a loss attributable to owners of the Company and loss per share of HK\$136.3 million and 35.28 HK cents respectively (2018: HK\$38.3 million and 9.97 HK cents respectively).

Other than decrease in sales for ODM division mentioned above, the loss reported for the year of 2019 was mainly attributed to: (i) the loss of the Group for the year ended 31st December, 2018 was offset by the fair value gain of HK\$20.3 million on revaluation of investment properties, whereas the Group recorded a fair value loss on revaluation of

investment properties of HK\$5.7 million for the year ended 31st December, 2019; (ii) the negative impact on the profitability of the Group as a result of the diseconomies of scale as the Group's consolidated revenue decreased by 13% in 2019 as compared to 2018; and (iii) the significant increase in impairment loss recognised on debtors by HK\$5.0 million to HK\$9.6 million in 2019 due to uncertainty of their collectability (2018: HK\$4.6 million).

ODM division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 74% of the consolidated revenue of the Group in 2019 (2018: 78%). Sales to ODM customers decreased significantly by 17% from HK\$931.9 million in 2018 to HK\$775.3 million in 2019. Geographically, sales to customers in Europe, the US, Asia and other regions accounted for 62%, 26%, 10% and 2% respectively of the revenue of the ODM division in 2019 (2018: 53%, 36%, 10% and 1% respectively). Sales to Europe, the US and Asia reduced by 3%, 39% and 19% respectively whereas sales to other regions was up by 42% in 2019. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2019. Sales of prescription frames, sunglasses and spare parts accounted for 54%, 43% and 3% respectively of revenue of the ODM division in 2019 (2018: 51%, 46% and 3% respectively).

Distribution division

Revenue generated by the distribution division increased slightly by 1% from HK\$264.1 million in 2018 to HK\$265.6 million in 2019 and accounted for 26% of the consolidated revenue of the Group in 2019 (2018: 22%). 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. Sales to Europe, Asia, the US and other regions accounted for 57%, 19%, 9% and 15% respectively of the revenue of the distribution division in 2019 (2018: 55%, 20%, 9% and 16% respectively). Europe was still the biggest market for the distribution division and sales to Europe were up by 4% compared to the year of 2018. On the other hand, sales to Asia, the US and other regions were decreased by 4%, 2% and 5% respectively. 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 inflow from operating activities of HK\$52.0 million (2018: net cash outflow of HK\$56.3 million). The result in net cash inflow is mainly due to decrease in inventories and debtors, deposits and prepayments by HK\$41.2 million and HK\$82.2 million respectively at the end of 2019 and which are in line with the sales decrease in the year of 2019 compared with 2018. 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\$216.3 million as at 31st December, 2019.

Working capital management

In line with the decline in revenue by 13% in 2019, inventories balances and total amounts 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\$141.4 million and HK\$244.9 million as at 31st December, 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) shorten correspondingly from 71 days and 104 days in 2018 to 60 days and 86 days respectively in 2019 due to contract of business volume during the year. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.6 to 1.0 as at 31st December, 2019 compared to 1.7 to 1.0 as at 31st December, 2018.

Gearing position

The Group maintained a low gearing position throughout 2019. 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, 2019 and 31st December, 2018. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$9.4 million as at 31st December, 2019 (31st December, 2018: HK\$12.0 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31st December, 2019 and 31st December, 2018 with equity attributable to owners of the Company HK\$896.7 million and HK\$1,045.4 million as at 31st December, 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 31st December, 2019 was HK\$2.32 (31st December, 2018: HK\$2.71).

Contingent liabilities

As at 31st December, 2019, the Group did not have significant contingent liabilities (31st December, 2018: nil).

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

While there is a sign of receding of the trade tensions between the US and China, the coronavirus adds a new layer of uncertainty as it has quickly spread around the world after it was first reported in Wuhan late last year. The Group considers the global business environment will be extremely challenging in the coming future.

To reduce the risk from the continual trade tensions between the US and China, the Group had launched a plan to set up a manufacturing facility in Vietnam in the late 2019 with an aim to reduce reliance solely on China based manufacturing. On the cost side, the Group remains vigilant in improving cost efficiency and productivity.

Going forward, the management will continue to build on our strong financial position and invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network. Notwithstanding the current challenging environment, we see ample opportunities for continuous growth and will capture such opportunities while adhering to our prudent financial discipline.

EVENTS AFTER THE REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. The Board will continue to pay attention to the development of coronavirus and timely assess the impact on the operation of the Group. As far as the Group's businesses are concerned, the outbreak has adversely impacted the sales, some debtors' repayment abilities and turnover of inventory. As the extent to which the coronavirus outbreak will continue is uncertain, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date on which this results announcement is authorised for issue.

Except for the above, there is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2019, the Group employed approximately 4,500 (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 year ended 31st December, 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 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 RSM HONG KONG

The figures in respect of the Group’s consolidated statement of financial position as at 31st December, 2019, 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, RSM Hong Kong, to the amounts set out in the Group’s audited 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 assurance 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 31st December, 2019 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 31st December, 2019.

PUBLICATION OF ANNUAL REPORT

The 2019 annual report will be despatched to the shareholders of the Company and will also be available on the Company’s website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited’s HKExnews website at www.hkexnews.hk in late-April 2020.

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, 27th March, 2020