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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, 2020**

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, 2020 together with last year’s comparative figures.

FINANCIAL HIGHLIGHTS		
	2020	2019
Revenue	HK\$742,618,000	HK\$1,040,962,000
Loss attributable to owners of the Company	HK\$(511,830,000)	HK\$(136,292,000)
Loss per share	(132.51) HK cents	(35.28) 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, 2020

		2020	2019
	Notes	HK\$'000	HK\$'000
Revenue	3	742,618	1,040,962
Cost of sales		(580,411)	(861,625)
Gross profit		162,207	179,337
Other income	4	28,478	16,909
Other gains and losses	5	(62,368)	(5,444)
Impairment losses	7	(343,384)	(9,640)
Distribution and selling expenses		(28,007)	(32,302)
Administrative expenses		(272,496)	(281,214)
Other expenses		(704)	(1,743)
Loss from operations		(516,274)	(134,097)
Finance costs	8	(962)	(886)
Share of profit of an associate		4,937	5,700
Loss before tax		(512,299)	(129,283)
Income tax expense	9	(556)	(2,470)
Loss for the year	10	(512,855)	(131,753)
Other comprehensive income/(expense) after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value change of equity investment at fair value through other comprehensive income ("FVTOCI")		(2,896)	–
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		41,535	(10,914)
Exchange differences arising on translation of an associate		3,520	(1,388)
Realisation of exchange reserve upon deregistration of a subsidiary		(70)	–
		44,985	(12,302)
Other comprehensive income/(expense) for the year, net of tax		42,089	(12,302)
Total comprehensive expense for the year		(470,766)	(144,055)
(Loss)/profit for the year attributable to:			
Owners of the Company		(511,830)	(136,292)
Non-controlling interests		(1,025)	4,539
		(512,855)	(131,753)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(470,114)	(148,757)
Non-controlling interests		(652)	4,702
		(470,766)	(144,055)
		HK cents	HK cents
Loss per share			
Basic and diluted	12	(132.51)	(35.28)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Investment properties		140,490	171,920
Property, plant and equipment		101,566	458,142
Deposits paid for acquisition of property, plant and equipment		28,130	4,931
Intangible assets		5,490	8,149
Goodwill		8,260	7,987
Investment in an associate		45,725	38,160
Investment in a joint venture		–	–
Loan receivable		–	–
Equity investment at FVTOCI		48	–
Equity investment at fair value through profit or loss (“FVTPL”)		8,875	–
Derivative financial instrument		1,573	288
Deferred tax assets		3,287	3,297
		343,444	692,874
Current assets			
Inventories		129,120	141,363
Debtors, deposits and prepayments	13	228,405	273,150
Loan receivable		–	–
Other receivables		–	–
Tax recoverable		845	–
Bank balances and cash		212,563	241,640
		570,933	656,153
Current liabilities			
Creditors and accrued charges	14	390,020	348,097
Contract liabilities		5,910	12,253
Refund liabilities		4,455	3,287
Consideration payable		449	–
Lease liabilities		1,039	688
Bank borrowings	15	19,780	25,304
Derivative financial instrument		4,261	7,246
Tax liabilities		8,030	11,428
		433,944	408,303
Net current assets		136,989	247,850
Total assets less current liabilities		480,433	940,724
Non-current liabilities			
Consideration payable		1,048	1,388
Lease liabilities		2,622	1,377
Deferred tax liabilities		7,831	9,365
		11,501	12,130
NET ASSETS		468,932	928,594
Capital and reserves			
Share capital		38,626	38,626
Reserves		387,918	858,032
Equity attributable to owners of the Company		426,544	896,658
Non-controlling interests		42,388	31,936
TOTAL EQUITY		468,932	928,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2020

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 Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and 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 1st January, 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments had no impact on the consolidated financial statements.

Amendments to HKFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1st January, 2020. The application of the amendments had no impact on the consolidated financial statements as similar conclusion would have been reached without applying the optional concentration test.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*

The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform.

The amendments had no impact on the consolidated financial statements of the Group as the Group's designated hedged items/assessment of hedge effectiveness is not affected by the interest rate benchmark reform.

3. REVENUE

Disaggregation of revenue

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

	2020 <i>HK\$'000</i>	2019 <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	556,776	775,342
– Distribution division	185,842	265,620
	<u>742,618</u>	<u>1,040,962</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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Compensation from customers	4,150	4,922
Dividend income from equity investment at FVTPL	298	–
Government subsidy	7,939	190
Gross rental income from investment properties	3,145	4,382
Imputed interest income on other receivables	–	71
Interest income on bank deposits	232	840
Product development income	5,447	–
Sales of scrap materials	3,347	3,102
Others	3,920	3,402
	<u>28,478</u>	<u>16,909</u>

5. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net foreign exchange (losses)/gains	(30,787)	9,435
Net loss on disposal of property, plant and equipment	(670)	(2,231)
Decrease in fair values of investment properties	(31,430)	(5,690)
Decrease in fair value of equity investment at FVTPL	(3,751)	–
Net fair values of derivative financial instruments at initial recognition date	–	(1,186)
Net increase/(decrease) in fair values of derivative financial instruments	<u>4,270</u>	<u>(5,772)</u>
	<u><u>(62,368)</u></u>	<u><u>(5,444)</u></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 gains or losses, decrease in fair values of investment properties, decrease in fair value of equity investment at FVTPL, net increase or decrease in fair values of derivative financial instruments, impairment losses of intangible assets and property, plant and equipment, 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>
For the year ended 31st December, 2020					
Original design manufacturing division	315,644	168,813	63,336	8,983	556,776
Distribution division	<u>113,180</u>	<u>29,667</u>	<u>20,230</u>	<u>22,765</u>	<u>185,842</u>
Revenue from external customers	<u>428,824</u>	<u>198,480</u>	<u>83,566</u>	<u>31,748</u>	<u>742,618</u>
Segment (loss)/profit	<u>(10,125)</u>	<u>(14,154)</u>	<u>(3,925)</u>	<u>746</u>	<u>(27,458)</u>
Unallocated income and gains					7,875
Unallocated corporate expenses and losses					(496,923)
Interest income on bank deposits					232
Finance costs					(962)
Share of profit of an associate					<u>4,937</u>
Loss before tax					<u><u>(512,299)</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 31st December, 2019					
Original design manufacturing division	482,158	201,927	76,712	14,545	775,342
Distribution division	<u>152,105</u>	<u>22,813</u>	<u>51,615</u>	<u>39,087</u>	<u>265,620</u>
Revenue from external customers	<u>634,263</u>	<u>224,740</u>	<u>128,327</u>	<u>53,632</u>	<u>1,040,962</u>
Segment (loss)/profit	<u>(18,679)</u>	<u>(17,807)</u>	<u>(5,058)</u>	<u>2,261</u>	<u>(39,283)</u>
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					<u>5,700</u>
Loss before tax					<u><u>(129,283)</u></u>

7. IMPAIRMENT LOSSES

	2020 HK\$'000	2019 HK\$'000
Impairment losses recognised on debtors	725	9,640
Impairment loss recognised on intangible assets	1,595	–
Impairment loss recognised on property, plant and equipment	341,064	–
	<u>343,384</u>	<u>9,640</u>

8. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank borrowings	620	841
Interest on lease liabilities	342	45
	<u>962</u>	<u>886</u>

9. INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
Current year:		
Hong Kong Profits Tax	162	2,677
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	–	274
United Kingdom Corporation Tax	1,429	2,089
France Corporation Tax	16	609
South Africa Corporation Tax	109	250
Dividend withholding tax	–	2,090
Deferred taxation	(1,505)	(5,565)
	<u>211</u>	<u>2,424</u>
Underprovision/(over) in respect of prior year:		
Hong Kong Profits Tax	324	–
PRC Enterprise Income Tax	(10)	(14)
United Kingdom Corporation Tax	(4)	–
South Africa Corporation Tax	35	60
	<u>345</u>	<u>46</u>
	<u>556</u>	<u>2,470</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 28% for amounts of taxable profit up to Euro (“EUR”) 500,000 and a corporate tax rate of 31% (2019: 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:

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	2,196	2,110
Impairment losses recognised on debtors	725	9,640
Impairment loss recognised on intangible assets	1,595	–
Impairment loss recognised on property, plant and equipment	341,064	–
Auditors’ remuneration:		
– Audit service	1,365	1,300
– Non-audit services	225	512
Cost of inventories recognised as an expense	580,411	861,625
Depreciation of property, plant and equipment	92,759	98,383
Decrease in fair values of investment properties	31,430	5,690
Net fair values of derivative financial instruments at initial recognition date	–	1,186
Net (increase)/decrease in fair values of derivative financial instruments	(4,270)	5,772
Decrease in fair value of equity investment at FVTPL	3,751	–
Allowance for/(write back of) inventories (included in cost of sales)	8,831	(10,165)
Operating leases rentals in respect of rented premises	486	1,797
Direct operating expenses of investment properties that did not generate rental income	912	1,158
Direct operating expenses of investment properties that generate rental income	737	752
Staff costs:		
Directors’ emoluments	2,410	2,535
Other staff		
– Salaries, bonuses and allowances	317,017	433,978
– Retirement benefit scheme contributions	11,418	36,688
Total staff costs	<u>330,845</u>	<u>473,201</u>

Cost of inventories sold includes staff costs and depreciation of approximately HK\$190,254,000 (2019: HK\$327,028,000) which are included in the amounts disclosed separately above.

11. DIVIDENDS

No dividend in respect of the year ended 31st December, 2020 has been proposed by the directors of the Company (2019: nil).

12. LOSS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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Loss for the purpose of basic loss per share		
– Loss for the year attributable to owners of the Company	<u>(511,830)</u>	<u>(136,292)</u>

	2020 <i>Number of shares</i>	2019 <i>Number of shares</i>
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Weighted average number of shares for the purpose of basic loss per share	<u>386,263,374</u>	<u>386,263,374</u>
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No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2020 and 2019.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade debtors from contracts with customers	210,138	305,536
Less: Allowance for credit losses	<u>(7,251)</u>	<u>(61,749)</u>
	202,887	243,787
Bills receivables	368	1,126
Other debtors, deposits and prepayments	<u>25,150</u>	<u>28,237</u>
Total debtors, deposits and prepayments	<u>228,405</u>	<u>273,150</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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 90 days	173,844	182,242
91 – 180 days	25,824	51,875
More than 180 days	<u>3,219</u>	<u>9,670</u>
	<u>202,887</u>	<u>243,787</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:

	2020 HK\$'000	2019 <i>HK\$'000</i>
0 – 90 days	368	1,126

14. CREDITORS AND ACCRUED CHARGES

	2020 HK\$'000	2019 <i>HK\$'000</i>
Trade creditors	111,836	90,633
Other creditors and accrued charges	278,184	257,464
	390,020	348,097

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

	2020 HK\$'000	2019 <i>HK\$'000</i>
0 – 60 days	68,681	81,618
61 – 120 days	34,620	6,676
More than 120 days	8,535	2,339
	111,836	90,633

15. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Secured bank borrowings	<u>19,780</u>	<u>25,304</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	5,691	5,486
More than one year, but not exceeding two years	5,835	5,658
More than two years, but not exceeding five years	<u>8,254</u>	<u>14,160</u>
	19,780	25,304
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<u>(19,780)</u>	<u>(25,304)</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\$14,791,000 (2019: HK\$18,979,000) 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\$140,490,000 (2019: HK\$171,920,000).

A bank borrowing of HK\$4,989,000 (2019: HK\$6,325,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$28,151,000 (2019: HK\$29,296,000) 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 (2019: nil) for the year ended 31st December, 2020.

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, 2021 (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, 2021
Closure of register of members	31st May, 2021 to 3rd June, 2021 (both dates inclusive)
Record date	3rd June, 2021

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 2021.

BUSINESS REVIEW

Profitability analysis

The business environment was unprecedentedly challenging during the year under review as the global business activities have significantly slowed down since the outbreak of COVID-19 early this year. Given such a backdrop, the Group has recorded a significant decrease in consolidated revenue by 29% to HK\$742.6 million in the financial year ended 31st December, 2020 (2019: HK\$1,041.0 million).

For the year under review, the Group recorded a loss attributable to owners of the Company and a loss per share of HK\$170.7 million and 44.21 HK cents respectively (2019: loss attributable to owners of the Company and a loss per share of HK\$136.3 million and 35.28 HK cents respectively) before impairment loss of property, plant and equipment was recognised. In addition, a non-operational impairment loss of HK\$341.1 million for property, plant and equipment was recorded due to significant decrease in demand from customer orders and revenue, the management considered that the recovery

of revenue to a normal level may take several years. As a result, total loss attributable to owners of the Company and loss per share increased to HK\$511.8 million and HK\$1.33 respectively after including the impairment loss.

Other than the impairment loss mentioned above, the increase of loss reported for the year of 2020 compared to 2019 was mainly attributable to the following non-routine operation factors:

- (i) the Group recorded a fair value loss on the revaluation of investment properties of HK\$31.4 million for the year ended 31st December, 2020;
- (ii) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 29% in 2020 as compared with 2019; and
- (iii) the Group had incurred a HK\$13.9 million of economic compensation during the year under review for layoff of idle staff in Mainland China.

Original design manufacturing (“ODM”) division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 75% of the consolidated revenue of the Group in 2020 (2019: 74%). Sales to ODM customers decreased significantly by 28% from HK\$775.3 million in 2019 to HK\$556.8 million in 2020. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 57%, 30%, 11% and 2% respectively of the revenue of the ODM division in 2020 (2019: 62%, 26%, 10% and 2% respectively). Sales to Europe, the US, Asia and other regions reduced by 35%, 16%, 17% and 38% respectively. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2020. Sales of prescription frames, sunglasses and spare parts accounted for 55%, 42% and 3% respectively of revenue of the ODM division in 2020 (2019: 54%, 43% and 3% respectively).

Distribution division

Revenue generated by the distribution division also decreased significantly by 30% from HK\$265.6 million in 2019 to HK\$185.8 million in 2020 and accounted for 25% of the consolidated revenue of the Group in 2020 (2019: 26%). 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, China and South Africa, and independent distributors in other countries. Sales to Europe, the US, Asia and other regions accounted for 61%, 16%, 11% and 12% respectively of the revenue of the distribution division in 2020 (2019: 57%, 9%, 19% and 15% respectively). Europe was still the biggest market for the distribution division and sales to Europe reduced by 26% compared to the year of 2019. Sales to Asia and other regions also reduced by 61% and 42% respectively. On the other hand, sales to the US increased by 30%. 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\$49.4 million (2019: HK\$52.0 million). The result in net cash inflow is mainly due to a decrease in inventories and debtors balances by HK\$12.3 million and HK\$41.6 million respectively at the end of 2020 and which are in line with the sales decrease in the year of 2020 compared with 2019. The net cash position of the Group (being the bank balances and cash less bank borrowings) decreased from HK\$216.3 million as at 31st December, 2019 to HK\$192.8 million as at 31st December, 2020.

Working capital management

In line with the decline in revenue during the period under review, the inventory balance and total amount of trade debtors and bills receivable balances decreased by 9% and 17% respectively from HK\$141.4 million and HK\$244.9 million as at 31st December, 2019 to HK\$129.1 million and HK\$203.3 million as at 31st December, 2020. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days in 2019 to 81 days in 2020 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2021. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased from 86 days in 2019 to 100 days in 2020 because the majority of customers had negotiated for payment extension as result of the negative impact of COVID-19. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.6 as at 31st December, 2019 to 1.3 as at 31st December, 2020.

Gearing position

The Group maintained a low gearing position throughout 2020. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) increased slightly from 1% as at 31st December, 2019 to 3% as at 31st December, 2020. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$7.8 million as at 31st December, 2020 (31st December, 2019: HK\$9.4 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31st December, 2020 and 31st December, 2019 with equity attributable to owners of the Company of HK\$426.5 million and HK\$896.7 million as at 31st December, 2020 and 31st December, 2019 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, 2020 was HK\$1.10 (31st December, 2019: HK\$2.32).

Contingent liabilities

As at 31st December, 2020, the Group did not have significant contingent liabilities (31st December, 2019: 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 the 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 was potential exposure to the rapid change of Renminbi during the second half of 2020 and the Group managed foreign exchange risk by closely monitoring the movements of the foreign currency rates and entered into forward contracts whenever appropriate.

PROSPECTS

While there are many countries around the world which have begun mass vaccination programme with COVID-19, it is expected that the disappearance of COVID-19 from the world is not likely to happen in the next two years. Moreover, there is no sign of relief in the trade tension between China and the US after the change of presidency of the US presidential election in January 2021. As a result, the management anticipates that the market demand for eyewear products in the future will be volatile and it takes time for the Group's business volume to be fully restored to pre-pandemic level.

Going forward, the management expects that changes in consumption patterns of the customers after the market recovers from the alleviation of COVID-19 will accelerate the popularity of online business of the eyewear industry. With the growth of e-commerce and the rise of mobile-friendly websites and applications, it is easier than ever for people to order and receive eyewear with prescription lens without making a trip to a professional optical shop. As management see ample opportunities for continuous growth in online business, the Group had acquired 55% equity interest of an optical lens company in Danyang City, Jiangsu Province of China. With the acquisition of the optical lens company, the Group will be able to provide a one-stop solution to support our customers and thus generate more revenue in the future.

EVENTS AFTER THE REPORTING PERIOD

Appointment of chief executive officer

Ms. Ng Yat Shan ("Ms. Ng") was appointed as the chief executive officer of the Group with effect from 23rd February, 2021.

Discloseable transaction in relation to the acquisition of 55% equity interest in a target company

On 24th March, 2021, Arts Opti Lab (Shenzhen) Company Limited[^] (雅視司徠柏光學科技(深圳)有限公司), an indirect wholly-owned subsidiary of the Company (the “Purchaser”), Danyang Colorful Optical Glass Company Limited[^] (丹陽市五彩光學眼鏡有限公司) (the “Seller I”), Danyang Zhongjiang Glasses Company Limited[^] (丹陽市中江光學眼鏡有限公司) (the “Seller II”), Danyang Zhongyang Glasses Company Limited[^] (丹陽中洋光學眼鏡有限公司) (the “Seller III”), (Seller I, Seller II and Seller III collectively, the “Sellers”) and Stepper & Colors Opti Technology (Jiangsu) Company Limited[^] (五彩司徠柏光學科技(江蘇)有限公司) (the “Target Company”) entered into an equity transfer agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Sellers have conditionally agreed to sell an aggregate of 55% equity interest in the Target Company at the total consideration of RMB46.5 million (equivalent to approximately HK\$55.4 million) (the “Consideration”), subject to adjustment. The Purchaser and the Sellers further agreed to inject an aggregate of RMB10 million (equivalent to approximately HK\$11.9 million) to the Target Company in cash based on the percentage of their respective equity holding in the Target Company. Accordingly, the Purchaser will inject its portion of RMB5.5 million (equivalent to approximately HK\$6.5 million) in cash after completion of the transfer of the 55% equity to the Purchaser; and the Sellers will inject its portion of RMB4.5 million (equivalent to approximately HK\$5.4 million) after receipt of the balance payment of the Consideration from the Purchaser.

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

Save as disclosed, there are no important events affecting the Group which have occurred after the end of financial period for the year ended 31st December, 2020 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2020, the Group employed approximately 3,200 (31st December, 2019: 4,500) 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, 2020, 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 separated and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael (“Mr. Ng”) is the founder and chairman of the Group, and Mr. Ng had been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. On 23rd February, 2021, Ms. Ng was appointed by the Board as the chief executive officer of the Group. Ms. Ng is responsible for implementing business strategies and operational management formulated by the Board. Following the appointment of Ms. Ng as the chief executive officer, the Company has complied with code provision A.2.1 of the CG Code.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group’s consolidated statement of financial position as at 31st December, 2020, 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 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 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, 2020 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, 2020.

PUBLICATION OF ANNUAL REPORT

The 2020 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 2021.

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 March, 2021