ARTS GROUP

ANNUAL REPORT

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 1120

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GROUP STRUCTURE

At 31 December 2022

Arts Optical International Holdings Limited

Investment holding

- 100% — **Arts Optical Company Limited**
  Trading in prescription frames and sunglasses to original design manufacturing customers
- 100% — **Arts Opti Lab (Shenzhen) Company Limited**
  Manufacture of prescription frames and sunglasses
- 80% — **Stepper Eyewear Limited**
  Trading in prescription frames and sunglasses under house and licensed brand names
- 55% — **Stepper & Colors Opti Technology (Jiangsu) Company Limited**
  Manufacture of optical lens
- 100% — **Sin Dak Industrial Limited**
  Holding of investment properties

CHAIRMAN'S STATEMENT

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).

CHAIRMAN'S STATEMENT

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.

CHAIRMAN'S STATEMENT

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.

CHAIRMAN'S STATEMENT

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 and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in late-April 2023.

APPRECIATION

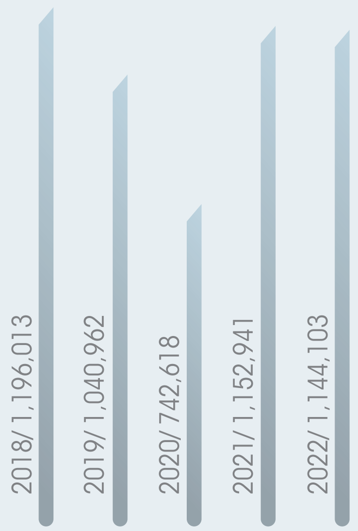
On behalf of the Board, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael
Chairman

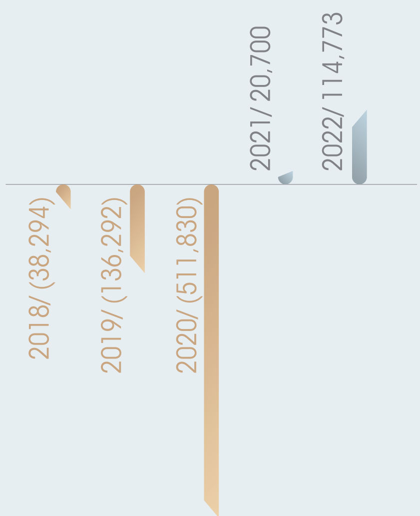
Hong Kong, 29 March 2023

FINANCIAL HIGHLIGHTS

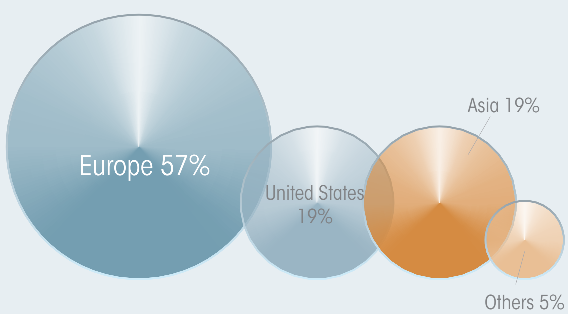
Consolidated revenue
(HK$'000)



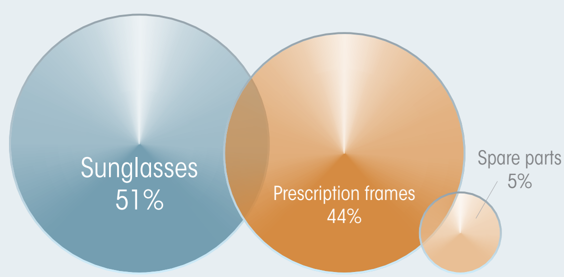
(Loss) profit attributable to owners of the Company **(HK$'000)**



Consolidated revenue by geographical locations in 2022



Revenue of ODM division by product range in 2022



BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 68, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for corporate policy making and strategic planning of the Group. He has 55 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently an executive committee member of the HKOMA and a Life Honorary President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 67, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 38 years of experience in the optical products industry and is the brother of Mr. Ng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 56, is an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong is also an independent non-executive director for Kin Yat Holdings Limited and C&D International Investment Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong obtained a bachelor's degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. He has 35 years of experience in the accountancy profession. Other than his private practice in accounting, he has been admitted as a solicitor at the High Court on 9 March 2019 and currently a practising solicitor in a law firm as a consultant. Mr. Wong joined the Group in 2004.

CHUNG Hil Lan Eric, aged 57, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 35 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accounting firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 58, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam is also an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Main Board of the Stock Exchange. Mr. Lam obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong. Mr. Lam has 35 years of experience in the accountancy profession and is currently a partner of Zhonghui Anda CPA Limited, a certified public accounting firm in Hong Kong. He joined the Group in 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

SENIOR MANAGEMENT

NG Yat Shan, aged 43, is the chief executive officer of the Group and responsible for implementing business strategies and operational management of the Group. Ms. Ng joined the Group in 2002 and has been a director of various subsidiaries of the Company since 2011. Ms. Ng was appointed as the Group's chief executive officer in February 2021. Ms. Ng obtained a Master of Business Administration degree from European University (currently known as EU Business School) in 2013 and received fellowship from The Professional Validation Council of Hong Kong Industries in 2020. Ms. Ng is the daughter of Mr. Ng, an executive director, the chairman of the Board and a controlling shareholder of the Company, and the niece of Mr. Ng Kim Ying, an executive director.

CHOI Pui Yiu, aged 58, is the chief financial officer and the company secretary of the Group. Mr. Choi joined the Group in 2017 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a bachelor's degree in Science from the Northeast Missouri State University of the United States of America and a master's degree in Management from the Dongbei University of Finance and Economics of the PRC in 1988 and 2005 respectively. Mr. Choi is a member of Hong Kong Institute of Certified Public Accountants. He has 34 years of experience in the accountancy profession and has extensive exposure to various manufacturing industries.

LI Chi Hung, aged 62, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 47 years of experience in the optical products industry.

CHU Chung Wah, aged 42, is the deputy chief executive officer of the Group. Mr. Chu joined the Group in 2005 and he had served the Group for over 17 years in various positions. Mr. Chu was appointed as the Group's deputy chief executive officer in February 2021 and was responsible for assisting Ms. Ng in implementing business strategies and new business development of the Group. Mr. Chu obtained a Master of Engineering Management degree from University of Technology Sydney in 2017 and received fellowship of Optical Industry from The Professional Validation Council of Hong Kong Industries in 2018.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint ventures are the manufacture of, and trading in, prescription frames, sunglasses and optical lens as well as property holding, which are set out in notes 22, 25 and 26 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 3 to 9 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 40 to 41 of this Annual Report.

The Board has resolved to recommend the payment of a final dividend of 5.0 HK cents per share, and a special dividend of 5.0 HK cents per share for the year ended 31 December 2022 amounting to approximately HK$38,626,000 to shareholders whose names appear on the register of members of the Company at the close of business on 15 June 2023.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 150 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2022 were as follows:

	2022 ***HK$'000***	2021 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**21,127**	2,035
	126,496	107,404

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each of the independent non-executive directors was appointed for a term of not more than three years and is subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers that all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2021, the Group entered into a new two-year lease agreement with a company which is controlled by Mr. Ng Hoi Ying, Michael. The Group has recognised additions of right-of-use assets of HK$2.6 million and lease liabilities of HK$2.6 million respectively.

Save as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out by the Group during the year are set out in note 47 to the consolidated financial statements. The aforesaid related party transactions did not constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company or their close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the directors of the Company and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions and damages which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties. The Company has arranged appropriate directors' and officers' liability insurance for its directors and officers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

Name of director/chief executive	Number of issued ordinary shares held				Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Other Interests	Total	
Ng Hoi Ying, Michael	2,856,000	19,656,000	153,600,000 *(Note)*	176,112,000	45.59%
Ng Kim Ying	23,126,347	5,000,000	–	28,126,347	7.28%
Ng Yat Shan	3,766,000	–	–	3,766,000	0.97%

Note:

These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

Save as disclosed above, as at 31 December 2022 none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors of the Company, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31 December 2022, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO recorded that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000	*(Note a)*	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000	*(Note a)*	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000	*(Note a)*	39.77%
Wu Zhihong	Beneficial owner	19,656,000	*(Note a)*	5.09%
David Michael Webb	Beneficial owner	13,827,000	*(Note b)*	3.58%
	Held by controlled corporation	21,025,000	*(Note c)*	5.44%
Preferable Situation Assets Limited	Beneficial owner	21,025,000	*(Note c)*	5.44%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael ("Mr. Ng") and the beneficiaries of which included Mr. Ng. Under The Arts 2007 Trust, 153,600,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL. According to an individual substantial shareholder notice filed by Mr. Ng on 17 January 2020, as at 15 January 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 17 January 2020), 19,656,000 shares of the Company were held directly by his wife, Ms. Wu Zhihong.

(b) According to an individual substantial shareholder notice filed by Mr. David Michael Webb ("Mr. Webb") on 17 August 2022, as at 12 August 2022 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 17 August 2022), 13,827,000 shares of the Company were held directly by Mr. Webb.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. Webb was deemed to be interested in the 21,025,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 38% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 12% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 20% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 5% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers mentioned above.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31 December 2022 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on information which is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float as at the date of this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. It puts great emphasis on environmental protection and sustainable development. The Group has actively promoted a material-saving and environmentally friendly working environment so as to protect the environment and reduce consumption.

A separate report on environmental, social and governance matters will be published on the same day of the publication of this Annual Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

So far as the Company is aware, the Group has complied with all relevant laws and regulations promulgated by the relevant regulatory bodies that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands that employees are valuable assets and provides a harmonious, safe and professional working environment and a competitive remuneration package to its employees. Details of the emolument policy of the Group are disclosed under the heading "Emolument Policy" of this report.

The Group maintains a close partnership with its customers and suppliers to fulfil its immediate and long-term goals. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors and independent non-executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The shareholders of the Company authorised the Remuneration Committee to fix the remuneration of the executive directors and independent non-executive directors of the Company at the annual general meeting.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 43 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 20 to 31 of this Annual Report.

EVENTS AFTER THE REPORTING PERIOD

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 Annual Report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. RSM Hong Kong as the auditor of the Company.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 29 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the 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 (the "Stock Exchange") (the "Listing Rules") as its own code on corporate governance practices. The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31 December 2022.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2022.

BOARD OF DIRECTORS

At 31 December 2022, 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.

During the year ended 31 December 2022, four Board meetings and one general meeting were held. The attendance of each Director is set out as follows:

	Attendance Record	
Directors	Board meetings	General meeting
Ng Hoi Ying, Michael *(Chairman)*	4/4	1/1
Ng Kim Ying	4/4	1/1
Wong Chi Wai	4/4	1/1
Chung Hil Lan Eric	4/4	1/1
Lam Yu Lung	4/4	1/1

Apart from the above regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the other Director during the year.

The Board is responsible for the formulation of the key business and strategic decisions of the Company and its subsidiaries (collectively the "Group") and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to the management team.

Mr. Ng Hoi Ying, Michael, the Chairman of the Board and an executive director and Mr. Ng Kim Ying, an executive director, are brothers. Save for disclosed above, there is no relationship, including financial, business, family or other material/relevant relationship(s) among members of the Board.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. The company secretary of the Company (the "Company Secretary") also updates the Directors on the latest development of the Listing Rules and other applicable regulatory requirements.

The Directors participated in the following trainings during the year ended 31 December 2022:

Directors	Types of training
Ng Hoi Ying, Michael	A, C
Ng Kim Ying	A, C
Wong Chi Wai	A, B, C
Chung Hil Lan Eric	A, C
Lam Yu Lung	A, C

A: attending seminars and/or conferences
B: giving talks at seminars
C: reading newspapers and journals relating to directors' duties and responsibilities as well as updates on the Listing Rules and other applicable regulatory requirements

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision C.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. Ms. Ng Yat Shan ("Ms. Ng") is the chief executive officer of the Group. Ms. Ng is responsible for implementing business strategies and operational management formulated by the Board.

Ms. Ng is the daughter of Mr. Ng, the chairman of the Board and an executive director, and the niece of Mr. Ng Kim Ying, an executive director. Save for disclosed above, there is no relationship, including financial, business, family or other material/relevant relationship(s) among members of the Board and the chief executive officer of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Bye-law 87(1) of the bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. According to Bye-law 86(2), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

CORPORATE GOVERNANCE REPORT

Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric were re-elected as Directors in the annual general meetings of the Company held on 3 June 2020 and 3 June 2021 respectively for a term of not more than 3 years and are subject to retirement by rotation in accordance with the Bye-laws. In accordance with the above-mentioned Bye-laws, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Their proposed term of office is not more than 3 years and is subject to retirement by rotation in accordance with the Bye-laws.

Each of the independent non-executive Directors was appointed for a term of not more than 3 years and is subject to the retirement by rotation in accordance with the Bye-laws.

According to code provision B.2.3 of the CG Code, if an independent non-executive Director serves more than 9 years, any further appointment of such independent non-executive Director should be subject to a separate resolution to be approved by the shareholders for more than 9 years. Mr. Lam Yu Lung ("Mr. Lam") has served the Company as an independent non-executive Director for more than 9 years since 2011. The Company has received from Mr. Lam a confirmation of independence according to Rule 3.13 of the Listing Rules. Mr. Lam has not engaged in any executive management of the Group and demonstrated his ability to provide an independent view to the Company's matters during his term of service. The Board considered that the long service of Mr. Lam would not affect his exercise of independent judgement and is satisfied that he has the required character, integrity, experience and profound knowledge of the business of the Group to continue fulfilling the role of independent non-executive Director effectively. Based on the abovementioned and in accordance with code provision B.2.3 of the CG Code, the re-election of Mr. Lam was approved by the shareholders by way of a separate resolution at the annual general meeting of the Company on 9 June 2022.

Further, according to code provision B.2.4 of the CG Code, where all the independent non-executive Directors have served more than 9 years on the Board, the Company should disclose the length of tenure of each existing independent non-executive Director on a named basis in the relevant circular for annual general meeting of the Company and appoint a new independent non-executive director on the Board at the forthcoming annual general meeting starting from the financial year commencing on or after 1 January 2023. As all of the Company's independent non-executive Directors have served more than 9 years on the Board, the Company has, in accordance with code provision B.2.4 of the CG Code, disclosed the length of tenure of each existing independent non-executive Director on a named basis in its circular dated 26 April 2022. Further, to comply with code provision B.2.4 of the CG Code, the Company will appoint additional independent non-executive Directors at the annual general meeting.

During the year ended 31 December 2022, the Board also reviewed the implementation and effectiveness of mechanisms to ensure independent views and input are available to the Board. Taking into account, among others, the size, structure, composition of the Board and the annual meeting between the Chairman and all independent non-executive Directors without presence of other Directors which has provided effective platform for the Chairman to listen independent views on various issues concerning the Group, the Board considered that the Company had in place mechanisms which remain effective to ensure a strong independent element on the Board.

BOARD COMMITTEES

To enhance the effectiveness of the management of the Company, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee various aspects of the Company's affairs.

AUDIT COMMITTEE

An audit committee (the "Audit Committee") has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (the chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) the review of the interim and annual reports of the Group as well as of various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties and made recommendations to the Board on the appointment of the external auditor during the year ended 31 December 2022. Three Audit Committee meetings were held during the year ended 31 December 2022 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Wong Chi Wai	3/3
Chung Hil Lan Eric	3/3
Lam Yu Lung	3/3

REMUNERATION COMMITTEE

A remuneration committee (the "Remuneration Committee") has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (the chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31 December 2022 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Chung Hil Lan Eric	1/1
Wong Chi Wai	1/1
Lam Yu Lung	1/1

The major roles and functions of the Remuneration Committee are summarised as follows:

1. to determine the remuneration of the executive Directors, independent non-executive Directors and senior management; and

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2022, the Remuneration Committee has, among other things, reviewed and determined the remuneration packages of the executive Directors, independent non-executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of the Directors' service contracts. The shareholders of the Company authorised the Remuneration Committee to fix the remuneration of the executive Directors and independent non-executive Directors at the annual general meeting.

Details of the remuneration of the senior management by band are set out in note 16 to the consolidated financial statements.

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.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (the chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors. The Nomination Committee has performed the above duties during the year ended 31 December 2022.

The Nomination Committee has adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company views increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board and the Nomination Committee are dedicated to the achieve board diversity of the Company.

Since the Board was comprised with the single gender Directors as at the date of this report, the Board aims to nominate and appoint at least one female candidate to be our Board member by end of 31 December 2023. The Company will also proactively provide trainings to our senior management and will take into account the factor of gender diversity when recruiting suitable candidates for our senior management in the future, so to develop a pipeline of potential successors for the Board and enhance gender diversity in the Board in the coming years. The Company may also engage resources to identify potential successors for the Board and enhance gender diversity in the coming years, if necessary. From the Group's perspective, as at 31 December 2022, the female-to-male ratio of the Group's employee is approximately 0.79. The Group is determined to maintain gender diversity and equality in terms of the whole workforce and expects the above is achievable with suitable effort in promoting the gender diversity culture, which the Group has been advocating for so.

One Nomination Committee meeting was held during the year ended 31 December 2022 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Lam Yu Lung	1/1
Wong Chi Wai	1/1
Chung Hil Lan Eric	1/1

NOMINATION POLICY

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

1. character and integrity;

2. qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy adopted by the Company that are relevant to the Company's business and corporate strategy;

3. any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

4. willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;

5. for independent non-executive Directors, whether the candidate would be considered independent with reference to the Listing Rules; and

6. such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following nomination procedures of the Directors:

Appointment of New and Replacement Directors

1. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, and external executive search firms.

2. Upon compilation of the list of potential candidates and interviews of the potential candidate, the relevant Nomination Committee will shortlist candidates for consideration by themselves and/or the Board based on the criteria as set out above and such other factors that it considers appropriate. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by the order of preference based on the criteria as set out above.

3. The Board has the final authority on determining suitable director candidates for appointment.

Re-election of Directors and Nomination from Shareholders

1. Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

2. In case of independent non-executive Directors, the Nomination Committee shall ensure that the independent non-executive Directors meet the criteria of independence as laid down in the Listing Rules.

3. Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must nominate the candidate in accordance with the procedures for shareholders to propose a person for election as a Director adopted by the Company. The Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

The nomination procedures shall be in compliance with the Listing Rules, the Company's memorandum of association and Bye-laws and all applicable laws and regulations.

DIVIDEND POLICY

The Company considers stable and sustainable returns to shareholders to be our goal and endeavours to maintain a progressive dividend policy.

In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account (a) the earnings performance of the Group; (b) the financial position of the Group; (c) the investment requirements of the Group; and (d) the future prospects of the Group.

There can be no assurance that a dividend will be proposed or declared in any given year. If a dividend is proposed or declared, there can be no assurance that the dividend amount will be as contemplated above.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the corporate governance policy of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31 December 2022, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 32 to 39 of this Annual Report.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, Messrs. RSM Hong Kong is set out as follows:

Services rendered	Fees paid/payable *HK$'000*
Audit service	1,555
Non-audit services:	
Agreed upon procedures service	105
Tax compliance services	124
Due diligence services	120

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The risk management and internal control systems of the Group comprise a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31 December 2022 has considered the following:

- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as the review of risk management and internal control systems;
- the changes in the nature and extent of significant risks during the year and the Group's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
- the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;
- significant control failings or weaknesses, if any, that have been identified during the year and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and
- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with executive Directors in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal control review reports and the external audit report;
- private sessions with external consultants and auditors; and
- review of annual assessment and certification of internal controls from executive Directors, management of overseas subsidiaries and department heads in their areas of responsibility.

The Audit Committee has also reviewed papers prepared by executive Directors covering:

- periodic financial reports and accounts;
- preview of annual accounting and financial reporting issues;
- annual internal control review plan;
- whistle-blowing reports;
- report on the Group's internal control systems; and
- reporting of outstanding litigation and compliance issues.

The Board reviews the risk management and internal control systems of the Group annually. With the assistance of an external consultant, Sage Business Services Limited and the Audit Committee, the Board assessed the effectiveness and adequacy of the Group's risk management and internal control systems which covered the process used to identify, evaluate and manage significant risks, all material controls, including financial, operational and compliance controls during the year ended 31 December 2022. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

The Company currently does not have an internal audit function. The Board had been conducting the review of the effectiveness of the Group's risk management and/or internal control systems with the assistance of external consultants and the Audit Committee since 2006 as the Board believed that this was a cost-efficient and effective approach given the size and operational complexity of the Group. The Board will review the need for an internal audit function on an annual basis.

INSIDE INFORMATION

The Group has in place a Policy on Disclosure of Inside Information (the "Policy") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to price the listed securities of the Company with the latest available information.

This Policy also provides guidelines to the directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Company's website and Hong Kong Exchanges and Clearing Limited's HKExnews website, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Mr. Choi Pui Yiu has been appointed as the Company Secretary since June 2017. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company carrying the right to vote at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve the requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Making an Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with his/her contact details, addressed to the head office of the Company at the following address or facsimile number or via email:

Arts Optical International Holdings Limited
Units A to G, 32nd Floor, King Palace Plaza
55 King Yip Street, Kwun Tong
Kowloon, Hong Kong

Facsimile number: (852) 2195 8994
Email: eddie.choi@artsgroup.com
Attention: Company Secretary

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically. The executive Directors shall review the enquiries and assign different kinds of enquiries to the appropriate division heads/managers for answering. After receiving the answers from the relevant division heads/managers, the Company Secretary will collate the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply to each enquiry in writing.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company, specifying his/her shareholding information, contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31 December 2022. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

The Company has adopted a Shareholders Communication Policy since 2012 with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and user-friendly information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

A summary of the Shareholders Communication Policy is as follows:

Information shall be communicated to shareholders and the investment community mainly through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. The Company endeavours to encourage shareholders' participation, and in particular, the process of the Company's general meetings will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that shareholders' needs are best served. Board members, appropriate management executives and external auditors will attend annual general meetings to answer shareholders' questions. In order for the Company to solicit and understand the views of shareholders and stakeholders or to enable them to make any query in respect of the Company, shareholders and the investment community may contact the Company Secretary at the contact details as set out above.

The Company reviewed the Group's shareholders and investor engagement and communication activities conducted in the year ended 31 December 2022 and was satisfied with the implementation and effectiveness of the Shareholders Communication Policy.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 149, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Estimated impairment of property, plant and equipment, and right-of-use assets
2. Estimated impairment of goodwill and intangible assets
3. Valuation of investment properties
4. Impairment assessment of trade debtors

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Estimated impairment of property, plant and equipment, and right-of-use assets	
Refer to note 21 to the consolidated financial statements At 31 December 2022, the Group held HK$207,214,000 (net of accumulated impairment of approximately HK$794,871,000) of property, plant and equipment, and right-of-use assets. We identified the estimated impairment of property, plant and equipment, and right-of-use assets as a key audit matter due to the judgements and estimation that are required in the determining the recoverable amount for impairment assessment of an individual asset or the cash-generating unit to which the asset belongs. When a review of impairment is conducted, the recoverable amount is generally based on value in use calculations which require management assumptions. These assumptions relate to discount rates applied and forecast sales growth and margins which are subject to estimation.	Our procedures included: • Understanding and evaluating the key controls over the management's impairment assessment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, susceptibility to management bias or fraud; • Evaluating the outcome of prior period assessment of impairment assessment to assess the effectiveness of management's estimation process; • Assessing management's process in identifying any impairment indicators for property, plant and equipment, and right-of-use assets; • Challenging and assessing the reasonableness of management's key assumptions including discount rates and forecast sales growth rate and margins adopted in the forecast of future cash flows by management and checking its mathematical accuracy; • Discussing management's key assumptions with the specialist appointed by the Group; • With the assistance of our internal valuation experts to review the reasonableness of the discount rate determined by the specialist appointed by the Group; and • Assessing the sensitivity analyses performed by management and the extent of the impact on the value in use calculations.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Estimated impairment of goodwill and intangible assets	
Refer to note 23 and note 24 to the consolidated financial statements As at 31 December 2022, the Group has goodwill of HK$25,293,000 and intangible assets of HK$21,873,000 including "Customer relationships" and "Non-compete agreement" mainly arising from the acquisition of a subsidiary in 2021. For the purpose of impairment testing, the goodwill and intangible assets are allocated to the lens division cash-generating unit ("CGU"). Goodwill is tested for impairment at least annually and intangible assets are tested for impairment when indicators of potential impairment are identified. The recoverable amount of the CGU was based on the calculation of value in use which requires management to make assumptions about the future including budgeted sales, gross profit ratio and growth rates and to determine an appropriate market discount rate. These estimates require significant management judgement. During the year, there was no material impairment on goodwill and intangible assets.	Our procedures included: • Understanding and evaluating the key controls over the management's impairment assessment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, susceptibility to management bias or fraud; • Evaluating the outcome of prior period assessment of impairment assessment to assess the effectiveness of management's estimation process; • Assessing the integrity of the valuation models; • Assessing the reasonableness of management's key assumptions based on the current operating environment and our knowledge of the business and industry; • Reconciling input data to supporting evidence, including approved budgets and considering the accuracy of previous management budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; and • Considering the potential impact of reasonable possible downside changes in the key assumptions.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter

3. Valuation of investment properties

Refer to note 20 to the consolidated financial statements

As at 31 December 2022, the investment properties are located in Hong Kong and Vietnam carried at HK$87,316,000. An increase in fair value of HK$2,665,000 was recognised in profit or loss for the year ended 31 December 2022.

The Group's investment properties are held at fair value based on the valuations performed by independent firms of qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 7(c) to the consolidated financial statements. The valuations have been arrived at using income capitalisation approach for property located in Hong Kong and market approach for the property in Vietnam.

For income capitalisation approach, the valuations of investment properties are dependent on certain key inputs, including reversion yield and monthly market rent and contracted monthly rent of similar properties and adjusted based on the Valuers' knowledge of the factors specific to the respective properties.

For the market comparable approach, the valuation has been determined the value of the properties through comparing it with identical or similar properties, which has price information on the market.

Our procedures included:

- Understanding and evaluating the key controls over the management's process in determining the fair value of investment properties and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, susceptibility to management bias or fraud;
- Evaluating the Valuers' competence, capabilities and objectivity;
- Assessing the estimates adopted by management of the Group and the Valuers by comparing these estimates to entity-specific information and market data to evaluate the reasonableness of these estimates;
- Obtaining rental agreements entered into by the Group and comparing the monthly market rent adopted in the valuation to contracted monthly rent in the rental agreements; and
- Assessing the reasonableness of the price per square meter of comparable properties and information used by the Valuer and the management in the valuation model, including adjustment factors for location and other individual factors such as size of property in order to assess the appropriateness, completeness and accuracy of these inputs and comparing the comparable properties adopted with fair market unit price.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter

4. *Impairment assessment of trade debtors*

Refer to note 31 to the consolidated financial statements

As at 31 December 2022, the Group had gross trade debtors of approximately HK$316,549,000 and allowance for credit losses of approximately HK$6,323,000.

In general, the credit terms granted by the Group to customers ranged between 30 days to 120 days. Management performed periodic assessments of the recoverability of trade debtors and the sufficiency of allowance for credit losses based on information including credit profile of different customers, ageing of the trade debtors, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area because the impairment assessment of trade debtors under the expected credit losses model involved the use of significant management judgements and estimates.

Our procedures included:

- Understanding and evaluating the design and implementation of the relevant controls on impairment of trade debtors and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- Perform retrospective review to evaluate the outcome of prior period assessment of impairment of trade debtors to assess the effectiveness of management's estimate process;
- Assessing whether trade debtors had been appropriately grouped by management based on their shared credit risk characteristics;
- Testing the accuracy and completeness of the data used by management to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data;
- With the assistance of our internal valuation experts, testing the calculation of the historical loss rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions;
- Testing the accuracy of the ageing of trade debtors on a sample basis to supporting documents; and
- Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade debtors outstanding at the reporting date.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the Company's 2022 annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tam Shing Yu.

RSM Hong Kong
Certified Public Accountants

29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	8	1,144,103	1,152,941
Cost of sales		(831,490)	(849,378)
Gross profit		312,613	303,563
Other income	9	35,956	22,114
Other gains and losses	10	33,147	(10,965)
Impairment losses	12	(454)	(557)
Net gain relating to the disposal of premises	50	58,818	–
Distribution and selling expenses		(41,106)	(38,150)
Administrative expenses		(274,387)	(246,492)
Other expenses		(1,599)	(1,132)
Profit from operations		122,988	28,381
Finance costs	13	(1,554)	(1,470)
Share of profit of an associate		5,644	5,477
Profit before tax		127,078	32,388
Income tax expense	14	(7,057)	(6,501)
Profit for the year	15	120,021	25,887
Other comprehensive (expense)/income after tax:			
Items that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		259	–
Fair value change of equity investment at fair value through other comprehensive income ("FVTOCI")		–	2,896
		259	2,896
Items that may be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(53,068)	7,246
Exchange differences arising on translation of an associate		(2,432)	(3,452)
Realisation of exchange reserve upon partial disposal of investment in an associate		–	501
		(55,500)	4,295
Other comprehensive (expense)/income for the year, net of tax		(55,241)	7,191
Total comprehensive income for the year		64,780	33,078

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 HK$'000	2021 HK$'000
Profit for the year attributable to:			
Owners of the Company		**114,773**	20,700
Non-controlling interests		**5,248**	5,187
		120,021	25,887
Total comprehensive income for the year attributable to:			
Owners of the Company		**65,713**	27,574
Non-controlling interests		**(933)**	5,504
		64,780	33,078
		HK cents	*HK cents*
Profit per share			
Basic and diluted	19	**29.71**	5.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Investment properties	20	87,316	142,400
Property, plant and equipment	21	207,214	203,400
Deposits paid for acquisition of property, plant and equipment		38,726	1,931
Intangible assets	23	21,873	28,617
Goodwill	24	25,293	28,331
Investment in an associate	25	39,869	37,303
Investments in joint ventures	26	1,306	–
Equity investments at FVTOCI	27	7,666	–
Equity investment at fair value through profit or loss ("FVTPL")	28	–	13,875
Contingent consideration receivable	29	57	965
Deferred tax assets	39	6,411	5,901
		435,731	462,723
Current assets			
Inventories	30	129,898	179,232
Debtors, deposits and prepayments	31	334,370	339,242
Tax recoverable		292	53
Short-term bank deposits	32	1,156	4,623
Bank balances and cash	32	189,710	136,956
		655,426	660,106
Current liabilities			
Creditors and accrued charges	33	429,355	460,877
Contract liabilities	34	8,458	9,206
Refund liabilities	35	7,200	6,555
Consideration payable	25	–	417
Lease liabilities	36	2,332	4,243
Bank borrowings	37	6,075	66,573
Tax liabilities		9,396	9,590
		462,816	557,461
Net current assets		192,610	102,645
Total assets less current liabilities		628,341	565,368

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Consideration payable	25	**556**	556
Lease liabilities	36	**3,550**	8,563
Deferred tax liabilities	39	**18,286**	15,917
		22,392	25,036
NET ASSETS		**605,949**	540,332
Capital and reserves			
Share capital	40	**38,626**	38,626
Reserves	42	**480,591**	415,007
Equity attributable to owners of the Company		**519,217**	453,633
Non-controlling interests		**86,732**	86,699
TOTAL EQUITY		**605,949**	540,332

Approved by the Board of Directors on 29 March 2023 and are signed on its behalf by:

Ng Hoi Ying, Michael	**Ng Kim Ying**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *note 42(b)(i)*	Other reserve *HK$'000* *note 42(b)(ii)*	Exchange reserve *HK$'000* *note 42(b)(iii)*	Financial assets at FVTOCI reserve *HK$'000* *note 42(b)(iv)*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2021	38,626	118,706	(3,269)	5,318	81,201	(2,896)	39,177	149,681	426,544	42,388	468,932
Profit for the year	–	–	–	–	–	–	–	20,700	20,700	5,187	25,887
Other comprehensive income	–	–	–	–	3,978	2,896	–	–	6,874	317	7,191
Total comprehensive income for the year	–	–	–	–	3,978	2,896	–	20,700	27,574	5,504	33,078
Transactions with owners in their capacity as owners:											
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	(1,064)	(1,064)
Contributions from non-controlling shareholders in respect of incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	11,083	11,083
Acquisition of a subsidiary *(note 48)*	–	–	–	–	–	–	–	–	–	29,083	29,083
Acquisition of additional interests in subsidiaries *(note 49)*	–	–	–	(485)	–	–	–	–	(485)	(295)	(780)
	–	–	–	(485)	3,978	2,896	–	20,700	27,089	44,311	71,400
At 31 December 2021 and 1 January 2022	38,626	118,706	(3,269)	4,833	85,179	–	39,177	170,381	453,633	86,699	540,332
Profit for the year	–	–	–	–	–	–	–	114,773	114,773	5,248	120,021
Other comprehensive income	–	–	–	–	(49,319)	–	259	–	(49,060)	(6,181)	(55,241)
Total comprehensive income for the year	–	–	–	–	(49,319)	–	259	114,773	65,713	(933)	64,780
Transactions with owners in their capacity as owners:											
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(2,564)	(2,564)
Contributions from non-controlling shareholders in respect of incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	2,178	2,178
Contributions from non-controlling shareholders in respect of capital increase of subsidiaries	–	–	–	–	–	–	–	–	–	1,407	1,407
Acquisition of additional interests in subsidiaries *(note 49)*	–	–	–	(235)	–	–	–	–	(235)	51	(184)
Disposal of partial interests in a subsidiary without losing control *(note 49)*	–	–	–	106	–	–	–	–	106	(106)	–
	–	–	–	(129)	(49,319)	–	259	114,773	65,584	33	65,617
At 31 December 2022	38,626	118,706	(3,269)	4,704	35,860	–	39,436	285,154	519,217	86,732	605,949

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**127,078**	32,388
Adjustments for:		
Finance costs	**1,554**	1,470
Depreciation of property, plant and equipment	**28,720**	15,906
Amortisation of intangible assets	**4,611**	4,251
Allowance for/(write back of) inventories	**4,707**	(9,610)
Written-off of the consideration receivable from the disposal of equity investment at FVTOCI	**2,329**	–
Impairment loss recognised on debtors	**454**	276
Impairment loss recognised on intangible assets	**–**	281
Dividend income from equity investment at FVTPL	**–**	(248)
Interest income on bank deposits	**(430)**	(257)
Net gain on disposal of property, plant and equipment	**(1,874)**	(719)
Increase in fair values of investments properties	**(2,665)**	(1,910)
Share of profit of an associate	**(5,644)**	(5,477)
Net fair values change of derivative financial instruments at exercise date	**–**	(2,688)
Loss on disposal of equity investment at FVTPL	**771**	–
Increase in fair value of equity investment at FVTPL	**–**	(5,000)
Decrease in fair value of contingent consideration receivable	**908**	–
Gain on lease modifications	**(133)**	–
Net gain relating to the disposal of premises	**(58,818)**	–
Gain on partial disposal of investment in an associate	**–**	(2,731)
Gain on partial disposal of investment in a joint venture	**–**	(85)
Operating profit before working capital changes	**101,568**	25,847
Decrease/(increase) in inventories	**37,005**	(37,673)
Increase in debtors, deposits and prepayments	**(19,431)**	(99,456)
(Decrease)/increase in creditors and accrued charges	**(13,564)**	65,141
(Decrease)/increase in contract liabilities	**(748)**	3,296
Increase in refund liabilities	**645**	2,100
Cash generated from/(used in) operations	**105,475**	(40,745)
Income taxes paid	**(5,631)**	(4,007)
Net cash generated from/(used in) operating activities	**99,844**	(44,752)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a subsidiary	–	(56,542)
Proceeds from disposal of equity investment at FVTPL	13,104	–
Proceeds from disposal of equity investment at FVTOCI	–	665
Acquisition of further interests in subsidiaries	(184)	–
Proceeds from partial disposal of investment in an associate	–	12,408
Proceeds from partial disposal of investment in a joint venture	–	85
Purchases of property, plant and equipment	(26,492)	(40,682)
Proceeds from disposal of property, plant and equipment	8,769	719
Net proceed relating to the disposal of premises	89,120	–
Interest received	430	257
Purchases of equity investment at FVTOCI	(7,666)	–
Investment in a joint venture	(1,306)	–
Dividend received from equity investment at FVTPL	–	248
Placement of short-term bank deposits	(1,156)	(4,623)
Withdrawal of short-term bank deposits	4,623	–
Repayment of consideration payable	(417)	(449)
Deposits paid for acquisition of property, plant and equipment	(37,154)	(1,931)
Net cash generated from/(used in) investing activities	41,671	(89,845)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to non-controlling shareholders in respect of acquisition of additional interests	–	(585)
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries	2,178	10,412
Contribution from non-controlling shareholders in respect of capital increase of subsidiaries	1,407	–
Cash dividends paid to non-controlling shareholders of subsidiaries	(2,564)	(1,064)
Interest paid on bank borrowings	(984)	(736)
Interest paid on lease liabilities	(570)	(734)
New bank borrowings raised	31,043	83,664
Repayments of bank borrowings	(91,541)	(36,871)
Repayments of lease liabilities	(4,287)	(3,422)
Net cash (used in)/generated from financing activities	(65,318)	50,664
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	76,197	(83,933)
Effect of foreign exchange rate changes	(23,443)	8,326
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	136,956	212,563
CASH AND CASH EQUIVALENTS AT END OF YEAR	189,710	136,956

1. GENERAL INFORMATION

Arts Optical International Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, which is United States dollars ("US$"), as directors of the Company ("the "Directors") consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

2. 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 and with the disclosure requirements of the Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

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

(a) 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

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

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

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. The new standard, amendments to standards and interpretation include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA
Hong Kong Interpretation 5 (2020) – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

Non-controlling interests ("NCI") represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. NCI are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. NCI are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the NCI having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and NCI are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Separate financial statements

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are, with limited exceptions, measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The NCI in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investments in associates are accounted for in the consolidated financial statements by the equity method and are initially recognised at cost. Identifiable assets and liabilities of the associates in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investments over the Group's share of the net fair value of the associates' identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investments. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of associates' post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of its joint arrangement and determined it to be joint venture.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill, which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of the joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Joint arrangements (continued)

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated exchange reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation (continued)

(iii) Translation on consolidation

The results and financial position of all foreign operations (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(g) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	Over the remaining term of the lease and over the estimated useful lives of 25 to 30 years or the lease term of the land on which buildings are located, if shorter
Leasehold improvements	Over the estimated useful lives of 3 to 5 years or the term of the lease, if shorter
Plant and machinery and motor vehicles	Over 5 to 10 years
Furniture, fixtures and office equipment	Over 3 to 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rentals and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment property are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time.

Gains or losses arising from changes in the fair value of investment properties are recognised in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is withdrawn from use. Any gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4(v).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

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

(i) The Group as lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third-party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

(i) The Group as lessee (continued)

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses except for the right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 4(h).

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

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

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

(ii) The Group as lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

(j) Intangible assets other than goodwill

Intangible assets which represent trademark, customer relationships and non-compete agreement are stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss as follows:

Trademark	Indefinite
Customer relationships	Straight-line basis over 10 years
Non-compete agreement	Straight-line basis over 6 years

The customer relationships and non-compete agreement have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships and non-compete agreement, which are determined to be 10 years and 6 years respectively.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. The costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(bb) and are reclassified to receivables when the right to the consideration has become unconditional.

Contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. Contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Contract assets and contract liabilities (continued)

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments

Debt instruments held by the Group are classified into the following measurement category:

- amortised cost, if the instruments is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

- FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVTPL, if the instrument does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the instrument (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVTOCI reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVTOCI reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Trade and other payables

Trade and other payables are recognised initially at their fair values and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(u) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of each reporting period.

(v) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of optical products is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue and other income (continued)

Under the Group's standard contract terms, customers have a right of return within 14 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Dividend income is recognised when the shareholders' rights to receive payment are established.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(w) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave, maternity leave and paternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(x) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(y) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and interest in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Taxation (continued)

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

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 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

(aa) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss and other comprehensive income to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of non-financial assets (continued)

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(bb) Impairment of financial assets and contract assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost, lease receivables, trade and other receivables, contract assets, employee loan, bank deposits and bank and cash balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade debtors, contract assets and lease receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL ("12m ECL").

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Impairment of financial assets and contract assets (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default;

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Impairment of financial assets and contract assets (continued)

Significant increase in credit risk (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Impairment of financial assets and contract assets (continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade debtors, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(dd) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

In applying the Group's accounting policies, which are described in note 4, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(a) Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(i) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the Directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

(ii) Revenue recognition from sales of products with no alternative use at point in time

Under HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15"), control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

(iii) Joint control assessment

The Group holds 30% of the voting rights of its joint arrangement of 天峰特材(深圳)有限公司 (known as "Tianfeng Special Materials (Shenzhen) Company Limited") ("Shenzhen Tianfeng"). The Directors have determined that the Group has joint control over the arrangement as under the contractual agreement, it appears that unanimous consent is required from all parties to the agreement for all relevant activities.

(iv) Consolidation of entity with less than 50% equity interest holding

Although the Group owns less than 50% of the equity interest in Stepper Deutschland GmbH, the company is treated as a subsidiary because the Group is able to control the relevant activities of the company as a result of the shareholders' agreement between the Group and other shareholders of the company.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Income taxes

As at 31 December 2022, no deferred tax asset has been recognised on the tax losses of HK$532,314,000 (2021: HK$572,432,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

(ii) Impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The carrying amount of property, plant and equipment as at 31 December 2022 were HK$207,214,000 (2021: HK$203,400,000).

(iii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(iii) Impairment of goodwill (continued)

Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations.

The carrying amount of goodwill at the end of the reporting period was HK$25,293,000 (2021: HK$28,331,000). Details of the goodwill are provided in note 24 to the consolidated financial statements.

(iv) Impairment of intangible assets

Determining whether intangible assets (i.e. trademark, customer relationships and non-compete agreement) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

At 31 December 2022, the carrying amount of the Group's intangible assets was HK$21,873,000 (2021: HK$28,617,000) after an impairment loss of nil (2021: HK$281,000) was recognised during the year. Details of the intangible assets are provided in note 23 to the consolidated financial statements.

(v) Fair value of investment properties

The Group appointed independent firms of qualified professional valuers to assess the fair values of the investment properties. In determining the fair value, the valuers have utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

Whilst the Group considers valuations of the Group's investment properties are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility depending on how the COVID-19 pandemic may progress and evolve, which have led to high degree of uncertainties in respect of the valuations in 2022.

The carrying amount of investment properties as at 31 December 2022 was HK$87,316,000 (2021: HK$142,400,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(vi) Impairment of trade debtors

The management of the Group estimates the amount of impairment loss for ECL on trade debtors based on the credit risk of trade debtors. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increase credit default rates. The information about the ECL and the Group's trade receivables are disclosed in note 6(b).

As at 31 December 2022, the carrying amount of trade debtors is HK$310,226,000 (net of allowance for credit losses of HK$6,323,000) (2021: HK$311,423,000 (net of allowance for credit losses of HK$5,904,000)).

(vii) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write back in the period in which such estimate has been changed. As at 31 December 2022, the carrying amount of inventories was HK$129,898,000, net of allowance for inventories of HK$68,765,000 (2021: HK$179,232,000, net of allowance for inventories of HK$64,216,000).

(viii) Fair value measurement of equity investments

In the absence of quoted market prices in an active market, the Directors estimate the fair value of the Group's investment in 南京簡躍智能科技有限公司 (known as "Nanjing Jianyue Intelligent Technology Company Limited") ("Nanjing Jianyue"), details of which are set out in note 27 to the consolidated financial statements, by considering information from a variety of sources, including the latest financial information, the historical data on market volatility as well as the price and industry and sector performance of Nanjing Jianyue.

The carrying amount of the investments as at 31 December 2022 was HK$7,666,000.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, Renminbi ("RMB"), Euro ("EUR"), US$, Japanese Yen ("JPY") and British Pound Sterling ("GBP"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**53,337**	71,235	**18,613**	54,834
RMB	**289**	529	**598**	669
EUR	**11,661**	14,298	**4,548**	5,621
US$	**57,791**	38,206	**841**	2,182
JPY	**6,352**	1,588	**284**	738
GBP	**5,437**	5,186	**–**	–

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation in currency of RMB, EUR, JPY and GBP. HK$ and US$ denominated monetary items arose from group entities with functional currency of US$ and HK$ respectively. As HK$ is pegged to US$, the Directors consider that the foreign currency exposure is limited.

At 31 December 2022, if HK$ had strengthened or weakened 5% against RMB with all other variables held constant, consolidated profit before tax for the year and the equity would have been HK$15,000 (2021: HK$7,000) higher or lower, arising mainly as a result of the foreign exchange gain or loss on trade creditors denominated in RMB.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign currency risk (continued)

Sensitivity analysis (continued)

At 31 December 2022, if HK$ had strengthened or weakened 5% against EUR with all other variables held constant, consolidated profit before tax for the year and the equity would have been HK$356,000 (2021: HK$434,000) lower or higher, arising mainly as a result of the foreign exchange loss or gain on trade debtors denominated in EUR.

At 31 December 2022, if HK$ had strengthened or weakened 5% against JPY with all other variables held constant, consolidated profit before tax for the year and the equity would have been HK$303,000 (2021: HK$42,000) lower or higher, arising mainly as a result of the foreign exchange loss or gain on bank balances (2021: loss or gain on trade debtors) denominated in JPY.

At 31 December 2022, if HK$ had strengthened or weakened 5% against GBP with all other variables held constant, consolidated profit before tax for the year and the equity would have been HK$272,000 (2021: HK$259,000) lower or higher, arising mainly as a result of the foreign exchange loss or gain on bank balances denominated in GBP.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade debtors) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customers credit quality and decide credit limits by customers. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment ECL model on trade balances individually based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

At 31 December 2022, the Group's concentration of credit risk by geographical locations is mainly in Italy, which accounted for 50% (2021: 49%) of the total trade debtors.

At 31 December 2022, the Group has concentration of credit risk as 27% (2021: 15%) and 55% (2021: 40%) of the total trade debtors was due from the Group's largest customer and the five largest customers.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade debtors	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The table below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Note	Internal credit rating	12m or lifetime ECL	Gross carrying amount 2022 *HK$'000*	2021 *HK$'000*
Other debtors and bills receivables	31	*Note 1*	12m ECL	**11,109**	17,621
Trade debtors	31	*Note 2*	Lifetime ECL (significant outstanding balance)	**202,955**	204,836
		Note 2	Lifetime ECL (provision matrix)	**110,511**	109,636
		Loss	Credit-impaired	**3,083**	2,855
				316,549	317,327

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Notes:

(1) For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due *HK$'000*	Not past due/ no fixed repayment terms *HK$'000*	Total *HK$'000*
2022			
Other debtors and bills receivables	**–**	**11,109**	**11,109**
2021			
Other debtors and bills receivables	–	17,621	17,621

(2) For trade debtors, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade debtors which are assessed based on provision matrix as at 31 December 2022 within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances and credit-impaired with gross carrying amounts of HK$202,955,000 (2021: HK$204,836,000) and HK$3,083,000 (2021: HK$2,855,000) respectively as at 31 December 2022 were assessed individually.

Gross carrying amount

Internal credit rating	**2022** ***HK$'000***	2021 *HK$'000*
Low risk	**37,707**	44,343
Watch list	**67,339**	61,733
Doubtful	**5,465**	3,560
	110,511	109,636

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Provision matrix – internal credit rating (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2022, impairment loss of HK$269,000 (2021: reversal of impairment loss of HK$499,000) and reversal of impairment loss of HK$21,000 (2021: impairment loss of HK$865,000) for trade debtors, based on the provision matrix and significant outstanding balances were made respectively. Impairment loss of HK$206,000 (2021: reversal of impairment loss of HK$90,000) were made on credit-impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade debtors under the simplified approach.

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
At 1 January 2021	2,879	4,372	7,251
Changes due to financial instruments recognised			
– Transfer to credit-impaired	(37)	37	–
– Impairment losses/(reversal of impairment losses) recognised, net	366	(90)	276
– Write-offs	(152)	(1,464)	(1,616)
Exchange realignment	(7)	–	(7)
At 31 December 2021 and 1 January 2022	3,049	2,855	5,904
Changes due to financial instruments recognised			
– Transfer to credit-impaired	(22)	22	–
– Impairment losses recognised, net	248	206	454
– Write-offs	(21)	–	(21)
Exchange realignment	(14)	–	(14)
At 31 December 2022	3,240	3,083	6,323

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Changes in the loss allowance for trade debtors are mainly due to:

	Increase/(decrease) in lifetime ECL	
	Not credit-impaired	Credit-impaired
	HK$'000	*HK$'000*
2022		
Two trade debtors with a gross amount of HK$443,000 defaulted and transferred to credit-impaired as at 31 December 2022	**(22)**	**22**
2021		
Six trade debtors with a gross amount of HK$819,000 defaulted and transferred to credit-impaired as at 31 December 2021	(37)	37

The Group writes off a trade debtor when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade debtor is over three years past due, whichever occurs earlier. None of the trade debtors that have been written off is subject to enforcement activities.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 December 2022, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$2,900,000 (2021: HK$2,900,000) and HK$98,780,000 (2021: HK$46,294,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2023.

All of the banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 31 December 2022, none (2021: none) of the covenants relating to drawn down facilities had been breached.

The maturity analysis based on the contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	2 to 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2022							
Creditors and accrued charges	**–**	**218,937**	**4,433**	**–**	**–**	**223,370**	**223,370**
Lease liabilities	**4.17**	**443**	**2,197**	**3,791**	**27**	**6,458**	**5,882**
Bank borrowings-variable rate	**3.28**	**6,075**	**–**	**–**	**–**	**6,075**	**6,075**
At 31 December 2021							
Creditors and accrued charges	–	232,539	3,476	–	–	236,015	236,015
Lease liabilities	4.08	701	4,107	8,055	1,509	14,372	12,806
Bank borrowings-variable rate	2.18	66,573	–	–	–	66,573	66,573

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31 December 2022 and 2021, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$6,075,000 and HK$66,573,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

The Directors believe that these outstanding bank borrowings at 31 December 2022 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	0-3 months	4-12 months	Between 1 and 2 years	Between 2 and 5 years	Total undiscounted cash flows
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2022	**1,166**	**3,497**	**1,554**	**–**	**6,217**
2021	54,183	4,588	6,117	2,285	67,173

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances and borrowings. It is the Group's policy to keep its borrowing at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate, Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") arising from the Group's borrowings.

At 31 December 2022, if interest rates had been 50 basis points (2021: 50 basis points) lower/higher with all other variables held constant, consolidated profit before tax for the year would have been HK$30,000 (2021: HK$333,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial assets and financial liabilities as the year end exposure does not reflect the exposure during the year.

(e) Categories of financial instruments at 31 December

	2022 ***HK$'000***	2021 *HK$'000*
Financial assets:		
Financial asset measured at FVTPL		
Equity investment	**–**	13,875
Contingent consideration receivable	**57**	965
Financial assets measured at FVTOCI		
Equity investments	**7,666**	–
Financial assets measured at amortised cost	**512,202**	470,623
Financial liabilities:		
Financial liabilities measured at amortised cost	**235,327**	315,394

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair values:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

Description	Fair value measurements using: Level 3 2022 *HK$'000*
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTOCI	
Unlisted equity securities	7,666
Contingent consideration receivable	57
	7,723
Investment properties	
Commercial units – Hong Kong	63,600
Factory premises – Vietnam	23,716
	87,316
Total	95,039

7. FAIR VALUE MEASUREMENTS (continued)

(a) Disclosures of level in fair value hierarchy at 31 December: (continued)

Description	Fair value measurements using: Level 1 2021 *HK$'000*	Fair value measurements using: Level 3 2021 *HK$'000*	Total 2021 *HK$'000*
Recurring fair value measurements:			
Financial assets			
Financial asset at FVTPL			
Listed equity security	13,875	–	13,875
Contingent consideration receivable	–	965	965
	13,875	965	14,840
Investment properties			
Commercial units – Hong Kong	–	142,400	142,400
Total	13,875	143,365	157,240

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3:

Assets

Description	Financial assets at FVTOCI – Unlisted equity securities *HK$'000*	Contingent consideration receivable *HK$'000*	Investment properties *HK$'000*	2022 Total *HK$'000*
At 1 January 2022	–	965	142,400	143,365
Total gains or losses recognised				
in profit or loss *(#)*	–	(908)	2,665	1,757
in other comprehensive income	–	–	259	259
Initial recognition	7,666	–	–	7,666
Reclassification from property, plant and equipment	–	–	23,853	23,853
Reclassification to property, plant and equipment	–	–	(81,000)	(81,000)
Exchange realignment	–	–	(861)	(861)
At 31 December 2022	7,666	57	87,316	95,039
(#) Include gains or losses for assets held at end of reporting period	–	(908)	2,665	1,757

Description	Financial assets at FVTOCI – Unlisted equity security *HK$'000*	Derivative put option *HK$'000*	Contingent consideration receivable *HK$'000*	Investment properties *HK$'000*	2021 Total *HK$'000*
At 1 January 2021	48	1,573	–	140,490	142,111
Total gains or losses recognised					
in profit or loss *(#)*	–	–	–	1,910	1,910
in other comprehensive income	2,896	–	–	–	2,896
Initial recognition	–	–	965	–	965
Disposal/released	(2,994)	(1,573)	–	–	(4,567)
Exchange realignment	50	–	–	–	50
At 31 December 2021	–	–	965	142,400	143,365
(#) Include gains or losses for assets held at end of reporting period	–	–	–	1,910	1,910

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3: (continued)

Liabilities

Description	2021 Derivative call option *HK$'000*
At 1 January 2021	(4,261)
Exercised	4,261
At 31 December 2021	–

The total gains or losses recognised in other comprehensive income are presented in fair value change of equity investment at FVTOCI in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those of assets/(liabilities) held at end of reporting period are presented in other gains and losses in the consolidated statement of profit or loss and other comprehensive income for both years.

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022:

The Group's chief financial officer (the "CFO") is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The CFO reports directly to the board of Directors (the "Board") for these fair value measurements. Discussions of valuation processes and results are held between the CFO and the Board at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

– reversion yield (estimated based on the capitalisation of rental income potential, nature of the property and prevailing market condition);

– monthly market rent (estimated based on time, location and individual factors such as frontage and size, between the comparable and the property);

– market rental unit price (estimated based on unit price, infrastructure, scale, geographical location, traffic, environment and security between the comparables and the property);

– discount for lack of marketability (estimated based on the volatility of share price of listed entities in similar industries);

– discount rate (estimated based on the cost of equity of listed entities in similar industries); and

– probability (estimated based on the probability of achieving the net profit for 31 December 2021, 2022 and 2023 with best and worst cases).

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022: (continued)

Level 3 fair value measurements					Fair value – Assets	
Description	Valuation techniques	Unobservable inputs	Range	Effect on fair value for increase of inputs	2022 HK$'000	2021 HK$'000
Investment properties – Commercial units – Hong Kong	Income capitalisation approach	Reversion yield	2.8% (31 December 2021: 2.8% to 3.5%)	Decrease	**63,600**	142,400
		Monthly market rent	Office portion: HK$37.9 to HK$39.9 (31 December 2021: HK$28.80 to HK$29.40) per square foot per month on lettable area basis	Increase		
			Car parking space portion: HK$3,300 to HK$3,400 (31 December 2021: HK$3,300 to HK$3,500) per car parking space per month			
Investment properties – Factory premises – Vietnam	Market comparable approach	Market prices	US$156 (31 December 2021: N/A) per square meter	Increase	**23,716**	–
Financial assets at FVTOCI	Discount cash flow	Discount rate	17% (31 December 2021: N/A)	Decrease	**7,666**	–
		Discount of lack of marketability	15.8% (31 December 2021: N/A)	Decrease		
Contingent consideration receivable	Probability-weighted payment approach	Discount rate	15.7% (31 December 2021: 14.4%)	Decrease	**57**	965
		Probability	10% (31 December 2021: 10%)	Increase		

During the two years, there were no changes in the valuation techniques used.

8. REVENUE

Disaggregation of revenue

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

	2022 HK$'000	2021 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
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
	1,144,103	1,152,941

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.

9. OTHER INCOME

	2022 HK$'000	2021 HK$'000
Compensation from customers	**5,208**	3,149
Dividend income from equity investment at FVTPL	**–**	248
Government subsidy *(Note)*	**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
	35,956	22,114

9. OTHER INCOME (continued)

Note: For the year ended 31 December 2022, the government subsidy mainly represented subsidies to the Group by the government of different countries as social insurance, wage and operation support which affected by the COVID-19 outbreak.

For the year ended 31 December 2021, the government subsidy mainly represented subsidies to the Group for the ex-gratia payment under the "Ex-gratia Payment Scheme for Phasing Out Pre-Euro IV Diesel Commercial Vehicles" upon retirement of motor vehicles and the government subsidy for the operation support which affected by the COVID-19 outbreak.

10. OTHER GAINS AND LOSSES

	2022 **HK$'000**	2021 HK$'000
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)**	–
	33,147	(10,965)

11. 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.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 4 to the consolidated financial statements. 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.

11. SEGMENT INFORMATION (continued)

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 *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Total *HK$'000*
For the year ended 31 December 2022					
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
Revenue from external customers	651,069	220,560	213,233	59,241	1,144,103
Segment profit	27,588	14,526	9,543	5,678	57,335
Unallocated income and gains					38,734
Unallocated corporate expenses and losses					(32,329)
Net gain relating to 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					127,078

11. SEGMENT INFORMATION (continued)

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Total *HK$'000*
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
Revenue from external customers	654,417	278,858	170,032	49,634	1,152,941
Segment profit	34,072	13,866	8,512	4,460	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					5,477
Profit before tax					32,388

Other Segment information

Amounts included in the measure to segment profit:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Unallocated *HK$'000* *(Note)*	Total *HK$'000*
Year ended 31 December 2022						
Depreciation of property, plant and equipment	5,480	2,167	935	197	19,941	28,720
Impairment loss/(reversal of impairment loss) recognised on debtors	301	(151)	385	(81)	–	454
Allowance for/(write back of) inventories	4,786	1,869	(2,072)	124	–	4,707

11. SEGMENT INFORMATION (continued)

Other Segment information (continued)

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Unallocated HK$'000 (Note)	Total HK$'000
Year ended 31 December 2021						
Depreciation of property, plant and equipment	2,684	1,342	276	109	11,495	15,906
Impairment loss/(reversal of impairment loss) recognised on debtors	630	97	266	(717)	–	276
Write back of inventories	(4,432)	(2,970)	(1,929)	(279)	–	(9,610)

Amounts regularly provided to the CODM but not included in the measure of segment profit and not allocated to any operating and reportable segment included net gain or loss on disposal of property, plant and equipment and depreciation of right-of-use assets which are set out in notes 10 and 15 respectively.

Note: The unallocated items are to adjust expenditure for the Group head office's corporate assets, which are not included in segment information.

Geographical information

Information about the Group's revenue is presented based on the location of the external customers. Information about the Group's non-current assets other than financial instrument and deferred tax assets is presented based on the geographical location of the Group.

	Revenue from external customers		Non-current assets	
	2022 **HK$'000**	2021 HK$'000	**2022** **HK$'000**	2021 HK$'000
Hong Kong	**–**	–	**148,167**	174,434
The People's Republic of China (excluding Hong Kong) (the "PRC")	**–**	–	**196,597**	190,956
United States	**220,560**	278,858	**284**	284
Italy	**426,448**	445,713	**40,486**	37,303
Other countries	**497,095**	428,370	**36,120**	39,970
	1,144,103	1,152,941	**421,654**	442,947

11. SEGMENT INFORMATION (continued)

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2022 HK$'000	2021 HK$'000
Customer A [1]	142,358	78,503
Customer B [2]	95,788	147,057
Customer C [1]	92,661	217,141

[1] Revenue from Europe
[2] Revenue from the United States

12. IMPAIRMENT LOSSES

	2022 HK$'000	2021 HK$'000
Impairment loss recognised on debtors	454	276
Impairment loss recognised on intangible assets	–	281
	454	557

13. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest on bank borrowings	984	736
Interest on lease liabilities	570	734
	1,554	1,470

14. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
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 *(note 39)*	1,800	117
	7,050	5,800
(Over)/underprovision in respect of prior year:		
Hong Kong Profits Tax	(10)	399
PRC Enterprise Income Tax	12	305
United Kingdom Corporation Tax	15	(3)
South Africa Corporation Tax	(10)	–
	7	701
	7,057	6,501

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 the year.

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.

14. INCOME TAX EXPENSE (continued)

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.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2022 *HK$'000*	2021 *HK$'000*
Profit before tax	127,078	32,388
Tax at Hong Kong Profits Tax rate of 16.5%	20,968	5,344
Tax effect of share of profit of an associate	(931)	(904)
Tax effect of expenses that are not deductible	1,566	1,968
Tax effect of income that is not taxable	(12,897)	(1,936)
Underprovision in respect of prior year, net	7	701
Tax effect of tax losses not recognised	2,608	4,380
Tax effect of other deductible temporary differences not recognised	4,439	7,432
Utilisation of tax losses not previously recognised	(9,228)	(6,877)
Utilisation of deductible temporary differences not previously recognised	(7,917)	(10)
Dividend withholding tax	1,147	(313)
Effect of different tax rate of subsidiaries operating in other jurisdictions	302	680
Effect of two-tiered tax rate of Hong Kong	(165)	(165)
Others	7,158	(3,799)
Income tax expense	7,057	6,501

15. PROFIT FOR THE YEAR

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

	2022 *HK$'000*	2021 *HK$'000*
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 *(Note a)*	**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) *(Note b)*	**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

Notes:

(a) 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.

(b) During the year ended 31 December 2021, the write back of allowance for inventories arose due to an increase in the estimated net realisable value of certain products as a result of change in market condition and sales of certain products which had been written down to net realisable value in prior years.

16. EMPLOYEE BENEFITS EXPENSE

	2022 HK$'000	2021 HK$'000
Salaries, bonuses and allowances	372,423	381,491
Retirement benefit scheme contributions	65,590	30,016
	438,013	411,507

Five highest paid individuals

The five highest paid individuals in the Group during the year included one (2021: one) executive director whose emoluments are set out in note 17. The emoluments of the remaining four (2021: four) highest paid individuals are set out below:

	2022 HK$'000	2021 HK$'000
Salaries and other benefits	5,267	5,604
Performance related incentive bonuses	820	810
Contributions to retirement benefit schemes	417	461
	6,504	6,875

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	1	3
HK$2,000,001 to HK$2,500,000	1	–
	4	4

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2021: nil).

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2021: nil).

17. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director in respect of a person's services as a director of the Company undertaking is set out below:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Ng Hoi Ying, Michael	–	1,460	68	1,528
Mr. Ng Kim Ying	–	455	21	476
	–	1,915	89	2,004
Independent non-executive directors:				
Mr. Wong Chi Wai	144	–	–	144
Mr. Chung Hil Lan Eric	144	–	–	144
Mr. Lam Yu Lung	144	–	–	144
	432	–	–	432
Total for 2022	432	1,915	89	2,436

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Ng Hoi Ying, Michael	–	1,560	72	1,632
Mr. Ng Kim Ying	–	455	21	476
	–	2,015	93	2,108
Independent non-executive directors:				
Mr. Wong Chi Wai	144	–	–	144
Mr. Chung Hil Lan Eric	144	–	–	144
Mr. Lam Yu Lung	144	–	–	144
	432	–	–	432
Total for 2021	432	2,015	93	2,540

17. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Note: The executive directors' emoluments shown above were for their services in connection with their services as directors of the Company. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(b) Chief executive officer's emoluments

	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	2022 Total *HK$'000*
Ms. Ng Yat Shan	**1,331**	**18**	**1,349**

	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	2021 Total *HK$'000*
Ms. Ng Yat Shan	1,045	15	1,060

Note: On 23 February 2021, Ms. Ng Yat Shan was appointed by the Board as the chief executive officer of the Group.

(c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

18. 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 and is subject to approval by the shareholders in the forthcoming annual general meeting.

19. PROFIT PER SHARE

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

	2022 ***HK$'000***	2021 *HK$'000*
Profit for the purpose of basic profit per share – Profit for the year attributable to owners of the Company	**114,773**	20,700

	2022 ***Number of shares***	2021 *Number of shares*
Weighted average number of shares for the purpose of basic profit per share	**386,263,374**	386,263,374

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

20. INVESTMENT PROPERTIES

The Group leases out lettable units of the properties under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 3 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2022 *HK$'000*	2021 *HK$'000*
At 1 January	142,400	140,490
Increase in fair value recognised in profit or loss	2,665	1,910
Reclassification from property, plant and equipment *(note 21)*	24,112	–
Reclassification to property, plant and equipment *(note 21)*	(81,000)	–
Exchange realignment	(861)	–
At 31 December	87,316	142,400

In determining the fair value of investment properties, it is the Group's policy to engage independent firms of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

At 31 December 2022, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers") and Vietnam Valuation and Financial Consultancy Company ("VVFC") (31 December 2021: Vigers), both are independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

The valuations have been arrived at using income capitalisation approach for the property located in Hong Kong and market approach for the property located in Vietnam. For the income capitalisation approach, the valuation has been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. For the market approach, the valuation has been determined the value of the properties through comparing it with identical or similar properties, which has price information on the market. There has been no change from the valuation techniques used in the prior period.

At 31 December 2022, the carrying amount of investment properties located in Hong Kong amounted to HK$63,600,000 (2021: HK$142,400,000) pledged as securities for the Group's bank borrowings amounted to HK$6,075,000 (2021: HK$10,490,000).

21. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in land and buildings held for own use HK$'000 (Note a)	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2021	120,535	696,857	694,006	746,180	47,408	12,930	2,317,916
Additions	12,737	8,985	37,328	18,450	3,312	567	81,379
Acquisition of a subsidiary *(note 48)*	–	–	231	32,047	1,464	378	34,120
Disposals	–	–	–	(1,831)	(42)	(326)	(2,199)
Exchange realignment	2,522	14,432	23,611	19,910	438	179	61,092
At 31 December 2021 and 1 January 2022	135,794	720,274	755,176	814,756	52,580	13,728	2,492,308
Additions	1,082	225	7,192	16,506	2,102	826	27,933
Transfers	74,611	(18,550)	–	–	–	–	56,061
Disposals	(48,511)	(649)	(3,488)	(8,286)	(7,872)	(691)	(69,497)
Lease modifications	(4,359)	–	–	–	–	–	(4,359)
Reclassification	–	594	–	–	(594)	–	–
Exchange realignment	(8,042)	(48,206)	(80,351)	(70,242)	(3,044)	(884)	(210,769)
At 31 December 2022	150,575	653,688	678,529	752,734	43,172	12,979	2,291,677
Accumulated depreciation and impairment							
At 1 January 2021	50,158	683,914	694,006	733,061	45,121	10,090	2,216,350
Charge for the year	5,419	1,408	2,156	4,412	1,467	1,044	15,906
Eliminated on disposals	–	–	–	(1,831)	(42)	(326)	(2,199)
Exchange realignment	1,637	14,039	23,307	19,223	436	209	58,851
At 31 December 2021 and 1 January 2022	57,214	699,361	719,469	754,865	46,982	11,017	2,288,908
Charge for the year	6,922	775	9,292	8,780	1,810	1,141	28,720
Transfers	(251)	(835)	–	–	–	–	(1,086)
Eliminated on disposals	(16,857)	(43)	(3,251)	(3,722)	(7,736)	(691)	(32,300)
Lease modifications	(773)	–	–	–	–	–	(773)
Reclassification	–	59	–	–	(59)	–	–
Exchange realignment	(5,524)	(48,046)	(77,397)	(64,620)	(2,667)	(752)	(199,006)
At 31 December 2022	40,731	651,271	648,113	695,303	38,330	10,715	2,084,463
Carrying amount							
At 31 December 2022	109,844	2,417	30,416	57,431	4,842	2,264	207,214
At 31 December 2021	78,580	20,913	35,707	59,891	5,598	2,711	203,400

21. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2022, the Group changed the usage of factory premises in Vietnam from owner occupation to investment properties. Accordingly, the factory premises with carrying amount of HK$23,853,000 was transferred from property, plant and equipment to investment properties at its fair value on the date of transfer of HK$24,112,000 which was determined by the Directors with reference to the valuation carried out by VVFC at the date of transfer. The difference between the fair value of the factory premises and its carrying amount at the date of transfer amounting to HK$259,000 has been credited to property revaluation reserve.

During the year ended 31 December 2022, the Group changed the usage of seven units of office premises in Hong Kong from investment properties to owner occupation. Accordingly, the relevant portion of the office premises with carrying amount of HK$81,000,000 was transferred from investment properties to property, plant and equipment at their fair values on the date of transfer of HK$81,000,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the date of transfer.

During the year ended 31 December 2022, certain land and buildings of the Group with carrying amounts of HK$30,302,000 were disposed, details of which are disclosed in note 50.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of nil (2021: nil).

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Note:

(a) Right-of-use assets

	Land and buildings HK$'000	Leasehold lands in the PRC and Vietnam HK$'000	Leased properties HK$'000	Total HK$'000
At 1 January 2021	31,911	35,134	3,332	70,377
Additions	–	170	12,567	12,737
Depreciation	(1,287)	(820)	(3,312)	(5,419)
Exchange realignment	–	891	(6)	885
At 31 December 2021 and 1 January 2022	30,624	35,375	12,581	78,580
Additions	–	–	1,082	1,082
Disposal	(30,302)	(1,352)	–	(31,654)
Lease modifications	–	–	(3,586)	(3,586)
Transfer	81,000	(6,138)	–	74,862
Depreciation	(2,185)	(638)	(4,099)	(6,922)
Exchange realignment	–	(2,509)	(9)	(2,518)
At 31 December 2022	79,137	24,738	5,969	109,844

The land and buildings comprise properties situated in Hong Kong.

At 31 December 2022, the carrying amount of land and buildings of HK$79,137,000 (2021: HK$27,006,000) pledged as securities for the Group's bank borrowings amounted to HK$6,075,000 (2021: HK$3,597,000).

Lease liabilities of HK$5,882,000 (2021: HK$12,806,000) are recognised with related right-of-use assets of HK$5,969,000 (2021: HK$12,581,000) as at 31 December 2022. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2022 HK$'000	2021 HK$'000
Depreciation expenses on right-of-use assets	**6,922**	5,419
Interest expense on lease liabilities (included in finance cost)	**570**	734
Expenses relating to short-term lease (included in cost of sales and administrative expenses)	**53**	190

Details of total cash outflow for leases are set out in note 44(c).

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: (continued)

(a) Right-of-use assets (continued)

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 2 months to 6 years (2021: 2 months to 10 years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised as at 31 December (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Offices and warehouses	**5,882**	12,806	**2,526**	2,830

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2022 and 2021, there has no such triggering event.

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold lands located in the PRC with carrying value of nil (2021: nil).

22. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2022 and 31 December 2021 are as follows:

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of effective ownership interest 2022 Direct	2022 Indirect	2021 Direct	2021 Indirect	Principal activities
Allied Power Inc.	British Virgin Islands	Canadian Dollars 50,000	100%	–	100%	–	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK$100,000	–	100%	–	100%	Investment holding
Arts Group Joint Stock Company ("Arts JSC")	Vietnam	US$3,800,000	–	64%	–	64%	Property holding
Arts Opti Lab (Shenzhen) Company Limited#	PRC	HK$202,000,000	–	100%	–	100%	Manufacture of prescription frames and sunglasses
Arts Optical Company Limited	Hong Kong	HK$1,000,000	–	100%	–	100%	Trading in prescription frames and sunglasses
Arts Studio Limited	Hong Kong	HK$100	–	100%	–	100%	Trading in prescription frames and sunglasses
E-Imperial Company Limited, LLC	United States	US$158,273	–	100%	–	100%	Trading in prescription frames and sunglasses
Prima Ideas Company Limited ("Prima Ideas")	Hong Kong	HK$1,000,000	–	65%	–	100%	Inactive
Shanghai Stepper Eyewear Company Limited ("Stepper China")@	PRC	RMB6,600,000	–	100%	–	88%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	–	100%	–	100%	Property holding
Stepper Deutschland GmbH	Germany	EUR50,000	–	48% *(Note)*	–	48% *(Note)*	Trading in prescription frames and sunglasses

22. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of effective ownership interest 2022 Direct	2022 Indirect	2021 Direct	2021 Indirect	Principal activities
Stepper Eyewear Limited ("Stepper HK")	Hong Kong	HK$100	–	80%	–	80%	Trading in prescription frames and sunglasses
Stepper France	France	EUR50,000	–	66.4%	–	66.4%	Trading in prescription frames and sunglasses
Stepper South Africa (Proprietary) Limited	South Africa	South African Rand 500,000	–	80%	–	80%	Trading in prescription frames and sunglasses
Stepper (UK) Limited ("Stepper UK")	United Kingdom	GBP5,000	–	72%	–	72%	Trading in prescription frames and sunglasses
Stepper Vision Limited ("Stepper Vision")	Hong Kong	HK$100	–	100%	–	100%	Inactive
宏駿眼鏡製造(鷹潭)有限公司 (known as "Hongjun Optical Manufactory (Yingtan) Company Limited")#	PRC	US$12,000,000	–	100%	–	100%	Property holding
宏懋金屬製品(深圳)有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")#	PRC	HK$61,000,000	–	100%	–	100%	Property holding
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")#	PRC	HK$150,000,000	–	100%	–	100%	Manufacture of prescription frames and sunglasses
江蘇駿輝光學眼鏡有限公司 (known as "Jiangsu Junhui Optical Company Limited")@	PRC	RMB5,600,000	–	50% *(Note)*	–	50% *(Note)*	Assemble of prescription frames and optical lens
領科智能系統(深圳)有限公司 (known as "Lingke Intelligent System (Shenzhen) Company Limited") ("Lingke")@	PRC	RMB3,104,525	–	76%	–	68%	System development

22. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of effective ownership interest 2022		2021		Principal activities
			Direct	Indirect	Direct	Indirect	
五彩司徠柏光學科技(江蘇)有限公司 (known as "Stepper & Colors Opti Technology (Jiangsu) Company Limited") ("Stepper & Colors")@	PRC	RMB50,000,000	–	55%	–	55%	Manufacture of optical lens

\# These subsidiaries are registered as wholly foreign-owned enterprises under the PRC law.

@ These subsidiaries are registered in the PRC with limited liabilities.

Note: These companies are deemed to be subsidiaries of the Company as the Company controls the composition of the board of directors.

22. PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at 31 December 2022 or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. These other subsidiaries were mainly established in the PRC and their principal activities are mainly either investment holding or inactive.

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Remarks:

(1) For illustrative purposes, it is assumed that the Group has three subsidiaries with non-controlling interests that are material to the Group.

(2) The amounts disclosed below do not reflect the elimination of intragroup transactions.

Name	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2022	2021	**2022**	2021	**2022**	2021
				HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Stepper HK	Hong Kong	**20%**	20%	**4,783**	5,158	**37,721**	36,467
Arts JSC	Vietnam	**36%**	36%	**351**	(207)	**10,523**	10,547
Stepper & Colors	PRC	**45%**	45%	**2,331**	1,858	**34,453**	36,563
Individually immaterial subsidiaries with non-controlling interests				**(2,217)**	(1,622)	**4,035**	3,122
				5,248	5,187	**86,732**	86,699

22. PRINCIPAL SUBSIDIARIES (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Stepper HK and its subsidiaries

	2022 *HK$'000*	2021 *HK$'000*
At 31 December:		
Non-current assets	17,798	20,673
Current assets	181,409	180,876
Non-current liabilities	(1,099)	(1,684)
Current liabilities	(38,890)	(45,372)
Net assets	159,218	154,493
Equity attributable to owners of the Company	126,970	122,988
Non-controlling interests of Stepper HK	30,104	29,108
Non-controlling interests of Stepper HK's subsidiaries	2,144	2,397
For the year ended 31 December:		
Revenue	246,791	222,756
Expenses	227,137	205,203
Profit for the year	19,654	17,553
Profit attributable to owners of the Company	15,422	13,486
Profit attributable to the non-controlling interests of Stepper HK	3,855	3,371
Profit attributable to the non-controlling interests of Stepper HK's subsidiaries	377	696
Profit for the year	19,654	17,553

22. PRINCIPAL SUBSIDIARIES (continued)

Stepper HK and its subsidiaries (continued)

	2022 *HK$'000*	2021 *HK$'000*
For the year ended 31 December:		
Other comprehensive expense attributable to owners of the Company	(3,440)	(329)
Other comprehensive expense attributable to the non-controlling interests of Stepper HK	(859)	(82)
Other comprehensive expense attributable to the non-controlling interests of Stepper HK's subsidiaries	(359)	(10)
Other comprehensive expense for the year	(4,658)	(421)
Total comprehensive income attributable to owners of the Company	11,982	13,157
Total comprehensive income attributable to the non-controlling interests of Stepper HK	2,996	3,289
Total comprehensive income attributable to the non-controlling interests of Stepper HK's subsidiaries	18	686
Total comprehensive income for the year	14,996	17,132
Net cash generated from operating activities	9,575	23,229
Net cash used in investing activities	(1,069)	(723)
Net cash used in financing activities	(1,623)	(23,466)
Net increase/(decrease) in cash and cash equivalents	6,883	(960)

22. PRINCIPAL SUBSIDIARIES (continued)

Arts JSC

	2022 *HK$'000*	2021 *HK$'000*
At 31 December:		
Non-current assets	**22,199**	24,225
Current assets	**8,041**	5,737
Current liabilities	**(1,010)**	(665)
Net assets	**29,230**	29,297
Equity attributable to owners of the Company	**18,707**	18,750
Non-controlling interests of Arts JSC	**10,523**	10,547
For the year ended 31 December:		
Revenue	**2,119**	–
Expenses	**1,145**	576
Profit/(loss) for the year	**974**	(576)
Profit/(loss) attributable to owners of the Company	**623**	(369)
Profit/(loss) attributable to the non-controlling interests of Arts JSC	**351**	(207)
Profit/(loss) for the year	**974**	(576)

22. PRINCIPAL SUBSIDIARIES (continued)

Arts JSC (continued)

	2022 *HK$'000*	2021 *HK$'000*
For the year ended 31 December:		
Other comprehensive (expense)/income attributable to owners of the Company	(666)	410
Other comprehensive (expense)/income attributable to the non-controlling interests of Arts JSC	(375)	230
Other comprehensive (expense)/income for the year	(1,041)	640
Total comprehensive (expense)/income attributable to owners of the Company	(43)	41
Total comprehensive (expense)/income attributable to the non-controlling interests of Arts JSC	(24)	23
Total comprehensive (expense)/income for the year	(67)	64
Net cash generated from operating activities	1,931	718
Net cash generated from/(used in) investing activities	3,635	(251)
Net cash (used in)/generated from financing activities	(2)	1
Net increase in cash and cash equivalents	5,564	468

22. PRINCIPAL SUBSIDIARIES (continued)

Stepper & Colors

	2022 *HK$'000*	2021 *HK$'000*
At 31 December:		
Non-current assets	55,587	66,628
Current assets	36,903	32,599
Non-current liabilities	(8,836)	(8,023)
Current liabilities	(7,091)	(9,952)
Net assets	76,563	81,252
Equity attributable to owners of the Company	42,110	44,689
Non-controlling interests of Stepper & Colors	34,453	36,563

	Year ended 31 December 2022 *HK$'000*	Period ended 31 December 2021 *HK$'000*
Revenue	66,591	54,685
Expenses	61,411	50,556
Profit for the year/period	5,180	4,129
Profit attributable to owners of the Company	2,849	2,271
Profit attributable to the non-controlling interests of Stepper & Colors	2,331	1,858
Profit for the year/period	5,180	4,129

22. PRINCIPAL SUBSIDIARIES (continued)

Stepper & Colors (continued)

	Year ended 31 December 2022 HK$'000	Period ended 31 December 2021 HK$'000
Other comprehensive (expense)/income attributable to owners of the Company	(5,428)	184
Other comprehensive (expense)/income attributable to the non-controlling interests of Stepper & Colors	(4,441)	151
Other comprehensive (expense)/income for the year/period	(9,869)	335
Total comprehensive (expense)/income attributable to owners of the Company	(2,579)	2,455
Total comprehensive (expense)/income attributable to the non-controlling interests of Stepper & Colors	(2,110)	2,009
Total comprehensive (expense)/income for the year/period	(4,689)	4,464
Net cash generated from/(used in) operating activities	11,807	(8,510)
Net cash used in investing activities	(2,881)	(48,883)
Net cash generated from financing activities	–	60,798
Net increase in cash and cash equivalents	8,926	3,405

23. INTANGIBLE ASSETS

	Trademark	Customer relationships	Non-compete agreement	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2021	4,680	13,851	–	18,531
Acquisition of a subsidiary *(note 48)*	–	24,826	2,105	26,931
Exchange realignment	–	(302)	8	(294)
At 31 December 2021 and 1 January 2022	4,680	38,375	2,113	45,168
Exchange realignment	–	(3,896)	(227)	(4,123)
At 31 December 2022	4,680	34,479	1,886	41,045
Amortisation and impairment				
At 1 January 2021	4,115	8,926	–	13,041
Provided for the year	–	3,220	260	3,480
Impairment loss	281	–	–	281
Exchange realignment	–	(255)	4	(251)
At 31 December 2021 and 1 January 2022	4,396	11,891	264	16,551
Provided for the year	–	3,628	337	3,965
Exchange realignment	–	(1,293)	(51)	(1,344)
At 31 December 2022	4,396	14,226	550	19,172
Carrying amount				
At 31 December 2022	284	20,253	1,336	21,873
At 31 December 2021	284	26,484	1,849	28,617

The average remaining amortisation period of customer relationships and non-compete agreement are 4 years (2021: 5 years) and 4 years (2021: 5 years) respectively.

Trademark purchased from an independent third party in 2006 is considered by the management of the Group as having an indefinite useful lives because it expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful lives is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. The Group identifies the business operated with the trademark as an individual CGU of selling a specific brand of presentation frames and sunglasses. Particulars of the impairment testing are disclosed below.

23. INTANGIBLE ASSETS (continued)

The recoverable amount of the trademark has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 17.16% (2021: 14.07%). The cash flows beyond the 5-year period are extrapolated using a 0% (2021: 0%) growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

Based on the discounted cash flow projections, the recoverable amount of the trademark is estimated to be higher (2021: lower) than its carrying amount. Accordingly, the management of the Group determined that impairment loss of nil (2021: HK$281,000) on trademark.

24. GOODWILL

	2022 ***HK$'000***	2021 *HK$'000*
Cost		
At 1 January	**28,331**	8,260
Acquisition of a subsidiary *(note 48)*	**–**	20,031
Exchange realignment	**(3,038)**	40
At 31 December	**25,293**	28,331
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Carrying amount		
At 31 December	**25,293**	28,331

Goodwill arising from the acquisition of two non-wholly-owned subsidiaries which are engaged in trading in prescription frames and sunglasses in United Kingdom (i.e. Stepper UK) amounted to HK$7,346,000 (2021: HK$8,300,000) and manufacture of optical lens in the PRC (i.e. Stepper & Colors) amounted to HK$17,947,000 (2021: HK$20,031,000). The Group identifies the business operated by the non-wholly-owned subsidiary as an individual CGU. Particulars of impairment testing on goodwill are disclosed below.

In addition to goodwill, property, plant and equipment, right-of-use assets and other intangible assets that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

24. GOODWILL (continued)

The recoverable amount of the CGUs has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculations uses cash flow projections based on the latest financial budgeted approved by the Company's management covering a period of 5 years, and at a discount rate of 17.37% (2021: 14.64%) for Stepper UK and at a discount rate of 15.23% (2021: 16.6%) for Stepper & Colors respectively. The cash flows beyond the 5-year period are extrapolated using a 0% (2021: 0%) growth rate. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

The goodwill was tested for impairment at the end of each reporting period by comparing the carrying amount of the CGUs with the recoverable amount of the CGUs. The management of the Group determined that there is no impairment loss for both years.

25. INVESTMENT IN AN ASSOCIATE

	2022 ***HK$'000***	2021 *HK$'000*
Cost of the Group's interest in an associate *(Notes)*		
– Unlisted	**28,680**	28,680
– Amortisation of intangible assets	**(5,854)**	(5,208)
– Exchange realignment	**(1,672)**	(1,268)
	21,154	22,204
Share of post-acquisition profit or loss and other comprehensive income	**20,425**	16,809
Adjustment on partial disposal	**(1,710)**	(1,710)
Group's share of carrying amount of interests	**39,869**	37,303

Notes:

(a) Breakdown of cost of investment

	2022 ***HK$'000***	2021 *HK$'000*
Share of 45% (2021: 45%) interest in net assets	**16,695**	16,695
Intangible assets – customer relationships	**7,765**	7,765
Goodwill	**4,220**	4,220
	28,680	28,680

25. INVESTMENT IN AN ASSOCIATE (continued)

Notes: (continued)

(b) Movement of intangible assets – customer relationships

	2022 *HK$'000*	2021 *HK$'000*
At 1 January	2,780	4,784
Partial disposal	–	(944)
Amortisation recognised in profit or loss	(646)	(771)
Exchange realignment	(170)	(289)
At 31 December	1,964	2,780

The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

(c) Movement of goodwill

	2022 *HK$'000*	2021 *HK$'000*
At 1 January	3,976	5,477
Partial disposal	–	(1,138)
Exchange realignment	(234)	(363)
At 31 December	3,742	3,976

Goodwill arising from the acquisition of an associate which is engaged in manufacture of and trading in prescription frames and sunglasses. The Group identifies the business operated as an individual CGU.

25. INVESTMENT IN AN ASSOCIATE (continued)

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 31 and 33 respectively.

Details of the associate at the end of the reporting period are as follows:

Name	Place of incorporation	Issued and paid up capital	Percentage of ownership interest/ voting power 2022	2021	Principal activities
Trenti Industria Occhiali S.p.A. ("Trenti")	Italy	EUR305,560	**45%**	45%	Manufacture of and trading in prescription frames and sunglasses

The above investment in an associate is held through a wholly-owned subsidiary of the Company.

At 31 December 2020, the Group held 57.5% of the issued share capital of Trenti. However, under the agreement, the other shareholders has controlled the composition of the board of directors of Trenti and had control over Trenti. The Directors considered that the Group had significant influence over Trenti and it is therefore classified as an associate of the Group. During the year ended 31 December 2021, the Group has disposed 12.5% of the issued share capital of Trenti, details of the disposal are set out in note 38.

On 27 March 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which the Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of EUR787,500 (equivalent to approximately HK$6,941,000) and reinvestment of dividends. The transaction was completed on 10 April 2020. Up to 31 December 2022, the Group has paid EUR724,500 (equivalent to approximately HK$6,419,000) (2021: EUR677,250 (equivalent to approximately HK$6,002,000)) to the Vendor and the remaining consideration of EUR63,000 (equivalent to approximately HK$556,000) will be settled on 31 January 2025 pursuant to the share purchase agreement.

The following tables show information on the associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the associate.

	2022	2021
Percentage of ownership interest/voting rights held by the Group	**45%/45%**	45%/45%

25. INVESTMENT IN AN ASSOCIATE (continued)

	2022 HK$'000	2021 HK$'000
At 31 December:		
Non-current assets	50,093	39,059
Current assets	210,395	149,010
Non-current liabilities	–	–
Current liabilities	(174,183)	(109,800)
Net assets	86,305	78,269
Group's share of net assets	38,837	35,221
Goodwill	3,742	3,976
Intangible assets	1,964	2,780
Other adjustments	(4,674)	(4,674)
Group's share of carrying amount of interests	39,869	37,303
For the year ended 31 December:		
Revenue	324,740	223,856
Profit for the year	12,543	11,697
Other comprehensive (expense)/income	(4,507)	8,407
Total comprehensive income	8,036	20,104
Dividend received from the associate	–	–

26. INVESTMENTS IN JOINT VENTURES

	2022 HK$'000	2021 HK$'000
Cost of unlisted investment in joint venture *(Note a)*	956	956
Capital contribution, at cost *(Note b)*	1,306	–
Share of post-acquisition profit or loss and other comprehensive income	196	196
	2,458	1,152
Loan to a joint venture	3,714	3,714
	6,172	4,866
Impairment loss recognised in profit or loss	(4,866)	(4,866)
	1,306	–

26. INVESTMENTS IN JOINT VENTURES (continued)

Notes:

(a) During the year ended 31 December 2012, the Group acquired 25% interest in a joint venture at a cash consideration of approximately HK$1,017,000. During the year ended 31 December 2016, the Group further acquired 2% interest in the joint venture at a cash consideration of approximately HK$24,000. During the year ended 31 December 2021, the Group disposed 7% interest in the joint venture at a cash consideration of approximately HK$85,000. Goodwill of HK$708,000 brought forward is included in the cost of investment in joint venture.

(b) During the year ended 31 December 2022, the Group contributed cash of approximately HK$1,306,000 with two independent third parties to set up a joint venture and held 30% interest.

The loan to the joint venture of HK$3,714,000 (2021: HK$3,714,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period.

The Group's trade debtor balance due from the joint venture is disclosed in note 31.

Details of the joint ventures at the end of the reporting period are as follows:

Name	Place of incorporation	Paid up capital	Percentage of ownership interest/ voting power 2022	2021	Principal activities
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited") ("Guangzhou Jiashimei")	PRC	RMB1,000,000	**20%**	20%	Trading in prescription frames and sunglasses
Shenzhen Tianfeng	PRC	RMB4,000,000	**30%**	–	Inactive

The above investments in joint ventures are held through wholly-owned subsidiaries of the Company.

In terms of contractual agreements drawn up and signed among all shareholders of Guangzhou Jiashimei and Shenzhen Tianfeng, respectively, all decisions on financial policies must be agreed by unanimous consent among all shareholders of the entities. Accordingly, there are contractual sharing of control over Guangzhou Jiashimei and Shenzhen Tianfeng, respectively, and the investments in those entities are accounted for by the Group as interests in joint ventures.

26. INVESTMENTS IN JOINT VENTURES (continued)

The following tables show information on the joint ventures that is material to the Group. These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the joint ventures.

	Guangzhou Jiashimei 2022	Guangzhou Jiashimei 2021	Shenzhen Tianfeng 2022
Percentage of ownership interest/voting rights held by the Group	20%/20%	20%/20%	30%/30%

	2022 HK$'000	2021 HK$'000	2022 HK$'000
At 31 December:			
Non-current assets	32	32	–
Current assets	18,474	18,474	4,352
Non-current liabilities	(13,810)	(13,810)	–
Current liabilities	(2,572)	(2,572)	–
Net assets	2,124	2,124	4,352
Group's share of net assets	425	425	1,306
Goodwill	708	708	–
	1,133	1,133	1,306
Loan	3,714	3,714	–
Other adjustments	19	19	–
	4,866	4,866	1,306
Impairment loss recognised in profit or loss	(4,866)	(4,866)	–
Group's share of carrying amount of interests	–	–	1,306

26. INVESTMENTS IN JOINT VENTURES (continued)

	Guangzhou Jiashimei Year ended 31 December 2022 HK$'000	2021 HK$'000	Shenzhen Tianfeng Period ended 31 December 2022 HK$'000
Revenue	–	–	–
Profit for the year/period	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	–	–	–
Dividend received from the joint venture	–	–	–

27. EQUITY INVESTMENTS AT FVTOCI

	2022 HK$'000	2021 HK$'000
Unlisted equity securities	**7,666**	–
Analysed as:		
Non-current assets	**7,666**	–

The carrying amount of the Group's equity investments at FVTOCI is denominated in the functional currency of the relevant group entity.

Equity securities which are not held for trading and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

During the year ended 31 December 2022, the Group invested RMB6,500,000 (equivalent to approximately HK$7,356,000) and RMB270,000 (equivalent to approximately HK$310,000) in two companies incorporated in the PRC and owned 10% and 18% equity interests in these companies, respectively.

28. EQUITY INVESTMENT AT FVTPL

	2022 **HK$'000**	2021 HK$'000
Listed investment, at fair value		
Equity security	–	13,875
Analysed as:		
Non-current asset	–	13,875

The fair value of listed security is based on current bid price.

The carrying amount of the Group's equity investment at FVTPL is denominated in the functional currency of the relevant group entity.

During the year ended 31 December 2022, the Group disposed all equity investment at FVTPL at a consideration of HK$13,104,000.

29. CONTINGENT CONSIDERATION RECEIVABLE

	2022 **HK$'000**	2021 HK$'000
At 1 January	**965**	–
Acquisition of a subsidiary *(note 48)*	–	965
Fair value change recognised in profit or loss	**(908)**	–
At 31 December	**57**	965
Analysed as:		
Non-current asset	**57**	965

On 24 March 2021, an indirect wholly-owned subsidiary of the Company (the "Purchaser"), three independent third parties (the "Sellers") and Stepper & Colors entered into an equity transfer agreement (the "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 Stepper & Colors. Details of the acquisition of Stepper & Colors are set out in note 48.

The Sellers, irrevocably warrant and guarantee to the Purchaser that the average audited net profit for the three years ending on 31 December 2021, 2022 and 2023 will not be less than RMB7,170,000 (equivalent to approximately HK$8,718,000) (the "Profit Guarantee"). In case the average audited net profit of Stepper & Colors does not meet the Profit Guarantee, the Sellers are required to return the difference between the consideration and the adjusted consideration to the Purchaser in cash or in shares of Stepper & Colors as set out in the Agreement.

29. CONTINGENT CONSIDERATION RECEIVABLE (continued)

According to the audited financial statements of Stepper & Colors for the year ended 31 December 2021 and 31 December 2022 issued on 25 January 2022 and 20 February 2023, the audited net profits of Stepper & Colors were RMB5,959,000 and RMB7,211,000 respectively.

The fair value of such contingent consideration arrangement amounted to HK$57,000 as at 31 December 2022 (HK$965,000 as at the acquisition date and 31 December 2021), which was determined by applying the income approach and after considered the probability of the weighted average estimated profit or loss of the guaranteed three-year period under discounted cash flow method and credit risk of the compensation that the Group could receive.

Fair values of contingent consideration are determined by CHFT Advisory and Appraisal Limited, an independent firm of qualified professional valuers, at the acquisition date and the end of reporting period. Details of valuations of contingent consideration are set out in note 7(c).

30. INVENTORIES

	2022	2021
	HK$'000	*HK$'000*
Raw materials	**34,126**	46,646
Work in progress	**40,397**	66,963
Finished goods	**55,375**	65,623
	129,898	179,232

Because of the change in the market conditions of the Group's products during the year, there was a decrease (2021: increase) in the net realisable value of inventories. As a result, allowance for inventories of HK$4,707,000 (2021: reversal of allowance for inventories of HK$9,610,000) was made.

31. DEBTORS, DEPOSITS AND PREPAYMENTS

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

31. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The carrying amounts of the Group's trade and other debtors are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2022 HK$'000	2021 HK$'000
HK$	45,921	69,004
RMB	72	75
EUR	9,677	13,879
US$	31,208	23,934
JPY	987	1,558

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 HK$'000	2021 HK$'000
0 – 90 days	213,375	236,178
91 – 180 days	89,505	69,895
More than 180 days	7,346	5,350
	310,226	311,423

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 HK$'000	2021 HK$'000
0 – 90 days	254	147

As at 31 December 2022, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK$57,113,000 (2021: HK$52,494,000) which are past due as at the reporting date. Out of the past due balances, HK$7,426,000 (2021: HK$4,822,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

31. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors. No interest is charged on the trade debtors. The Group has provided fully for all receivables past due beyond 360 days because historical experience showed that receivables that are past due beyond 360 days are generally not recoverable. Trade debtors past due for less than 360 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to historical settlement records and subsequent settlement.

Details of impairment assessment of trade and other debtors for the year ended 31 December 2022 are set out in note 6(b).

At 31 December 2022, loans to the Group's employees of HK$4,512,000 (2021: HK$6,187,000) included in other receivables are unsecured, interest bearing at 2% per annum and repayable on demand.

Trade debtors due from the associate and joint venture

Included in the Group's trade debtors is an amount due from the Group's associate of HK$83,106,000 (2021: HK$43,774,000) net of allowance for credit losses of HK$924,000 (2021: HK$487,000) and an amount due from the Group's joint venture of nil (2021: nil) net of allowance for credit losses of HK$40,000 (2021: HK$40,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured with carrying amount of HK$17,268,000 (2021: HK$2,649,000) which are past due balances, HK$40,000 (2021: HK$2,399,000) has been past due 90 days or more and is not considered as in default. An impairment loss of HK$964,000 (2021: HK$527,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

32. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

1-year short-term bank deposits and bank balances carry market interest rates which range from 0.001% to 4.9% (2021: 0.001% to 4.9%) per annum in 2022.

The carrying amounts of the Group's short-term bank deposits and bank balances and cash are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2022 ***HK$'000***	2021 *HK$'000*
HK$	**7,416**	2,231
RMB	**217**	454
EUR	**1,984**	419
US$	**26,583**	14,272
JPY	**5,365**	30
GBP	**5,437**	5,186

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

33. CREDITORS AND ACCRUED CHARGES

	2022 *HK$'000*	2021 *HK$'000*
Trade creditors	**116,857**	155,862
Other creditors and accrued charges	**312,498**	305,015
	429,355	460,877

The carrying amounts of the Group's trade and other creditors are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2022 *HK$'000*	2021 *HK$'000*
HK$	**18,059**	24,834
RMB	**598**	669
EUR	**4,548**	5,621
US$	**841**	2,182
JPY	**284**	738

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

	2022 *HK$'000*	2021 *HK$'000*
0 – 60 days	**102,920**	105,142
61 – 120 days	**8,438**	42,787
More than 120 days	**5,499**	7,933
	116,857	155,862

The credit period on purchase of goods is 60 days to 120 days. No interest is charged by the trade creditors. The Group has financial risk management policies in place to ensure that all payables to major suppliers are paid within the credit timeframe.

Trade creditor due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK$238,000 (2021: HK$542,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

34. CONTRACT LIABILITIES

	2022 HK$'000	2021 HK$'000
Optical products	**8,458**	9,206

Movements in contract liabilities:

	2022 HK$'000	2021 HK$'000
At 1 January	**9,206**	5,910
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	**(7,839)**	(3,503)
Increase in contract liabilities as a result of billing in advance	**7,091**	6,799
At 31 December	**8,458**	9,206

The amount of billings in advance of performance received that is expected to be recognised as income after more than one year is HK$1,367,000 (2021: HK$2,407,000).

Typical payments terms which impact on the amount of contract liabilities recognised are as follows:

– Optical products

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposits.

35. REFUND LIABILITIES

	2022 HK$'000	2021 HK$'000
Arising from right of return	**7,200**	6,555

36. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**2,640**	4,808	**2,332**	4,243
In the second to fifth years, inclusive	**3,791**	8,055	**3,524**	7,158
Over five years	**27**	1,509	**26**	1,405
	6,458	14,372	**5,882**	12,806
Less: Future finance charges	**(576)**	(1,566)	**N/A**	N/A
Present value of lease obligations	**5,882**	12,806	**5,882**	12,806
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(2,332)**	(4,243)
Amount due for settlement after 12 months			**3,550**	8,563

The weighted average incremental borrowing rates applied to lease liabilities range from 1.12% to 8.90% (2021: 1.12% to 6.67%).

The carrying amounts of the Group's lease liabilities are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2022	2021
	HK$'000	*HK$'000*
HK$	**554**	–

37. BANK BORROWINGS

	2022	2021
	HK$'000	*HK$'000*
Secured bank borrowings	**6,075**	14,087
Guaranteed bank borrowings	**–**	52,486
	6,075	66,573

37. BANK BORROWINGS (continued)

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

	2022 *HK$'000*	2021 *HK$'000*
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
	6,075	66,573
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(6,075)**	(66,573)
Amounts due after one year shown under non-current liabilities	**–**	–

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 HK$27,006,000 and carried interest at one month 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 LIBOR plus certain basis points.

The effective interest rate per annum at the end of the reporting period on the bank borrowings of the Group were as follows:

	2022	2021
Variable-rate borrowings	**3.28%**	2.18%

The carrying amounts of the Group's bank borrowings are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2022 *HK$'000*	2021 *HK$'000*
HK$	**–**	30,000

38. DERIVATIVE FINANCIAL INSTRUMENTS

On 27 March 2019, the Group entered into an option agreement with an independent third party ("Buyer"), pursuant to which the Buyer and the Group granted each other reciprocal call and put options in respect of 12.5% of the issued share capital of the Group's associate, the exercise price of the option ranges from EUR1,000,000 (equivalent to approximately HK$8,863,000) to EUR1,562,500 (equivalent to approximately HK$13,848,000). The Buyer is entitled to exercise the call option during the period from 1 October 2020 to 31 March 2021 or the period from 1 October 2021 to 31 March 2022. The Group is entitled to exercise the put option during the period from 1 April 2022 to 30 September 2022. The Buyer has exercised the call option on 31 March 2021, the exercise price was EUR1,320,000 (equivalent to approximately HK$12,408,000) and the transaction was completed on 26 April 2021. After the transaction, the Group holds 45% of the issued share capital of the associate.

	2022 ***HK$'000***	2021 *HK$'000*
Carrying amount of put option (non-current asset):		
At 1 January	–	1,573
Fair value at exercise date	–	(1,573)
At 31 December	–	–

	2022 ***HK$'000***	2021 *HK$'000*
Carrying amount of call option (current liability):		
At 1 January	–	4,261
Fair value at exercise date	–	(4,261)
At 31 December	–	–

The fair values of options at initial recognition date and the end of reporting period prior exercise were revalued by Vigers. The valuations have been arrived at using binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Major inputs to the model include the valuations of the options which were determined using expected volatility of share price and dividend yield.

39. DEFERRED TAX

The following are the deferred tax assets and (liabilities) recognised by the Group.

	Undistributable profits of an associate *HK$'000*	Accelerated tax depreciation *HK$'000*	Other temporary differences *HK$'000* *(Note)*	Total *HK$'000*
At 1 January 2021	(5,957)	(1,281)	2,694	(4,544)
Acquisition of a subsidiary *(note 48)*	–	(5,330)	–	(5,330)
Credit/(charge) to profit or loss	313	(1,638)	1,208	(117)
Exchange realignment	–	(25)	–	(25)
At 31 December 2021 and 1 January 2022	(5,644)	(8,274)	3,902	(10,016)
(Charge)/credit to profit or loss	(1,147)	(1,490)	837	(1,800)
Exchange realignment	–	(59)	–	(59)
At 31 December 2022	(6,791)	(9,823)	4,739	(11,875)

Note: The amount represents the net temporary differences arising from capitalisation of production cost of inventories at Group level and unrealised profits on the inventories arising from intragroup sales.

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purpose:

	2022 ***HK$'000***	2021 *HK$'000*
Deferred tax assets	**6,411**	5,901
Deferred tax liabilities	**(18,286)**	(15,917)
	(11,875)	(10,016)

At the end of the reporting period, the Group has unused tax losses of HK$532,314,000 (2021: HK$572,432,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of total HK$48,319,000 (2021: HK$56,893,000) that will expire from 2023 to 2027 (2021: expire from 2022 to 2026). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$1,041,332,000 (2021: HK$1,062,409,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

40. SHARE CAPITAL

	Number of shares		Nominal value	
	2022	2021	**2022**	2021
			HK$'000	*HK$'000*
Ordinary shares of HK$0.1 each				
Authorised:				
At beginning and end of year	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning and end of year	**386,263,374**	386,263,374	**38,626**	38,626

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises bank borrowings and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves) except for non-controlling interests. As the end of the reporting period, the Group has debt outstanding of HK$11,957,000 (2021: HK$79,379,000) and the debt-to-adjusted capital has not been disclosed as the Group has net cash in both years.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Company receives a report from the share registrar monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2022, the approximate percentage of the total shares in public hands were 46% (2021: 46%).

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2022 HK$'000	2021 HK$'000
Non-current assets		
Investment in a subsidiary	139,040	139,040
Amount due from a subsidiary	146,417	127,196
	285,457	266,236
Current assets		
Deposits and prepayments	317	310
Bank balances	228	147
	545	457
Current liabilities		
Accrued charges	2,116	1,899
Dividend payable	58	58
	2,174	1,957
Net current liabilities	(1,629)	(1,500)
NET ASSETS	283,828	264,736
Capital and reserves		
Share capital *(note 40)*	38,626	38,626
Reserves	245,202	226,110
EQUITY	283,828	264,736

Approved by the Board of Directors on 29 March 2023 and is signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2021	118,706	105,369	3,957	228,032
Loss for the year	–	–	(1,922)	(1,922)
At 31 December 2021 and 1 January 2022	118,706	105,369	2,035	226,110
Profit for the year	–	–	19,092	19,092
At 31 December 2022	118,706	105,369	21,127	245,202

Note: The contributed surplus represents a difference of HK$105,469,000 between the consolidated net asset value of Allied Power Inc. and the nominal amount of the share capital issued by the Company and the subsequent capitalisation of HK$100,000 of nil paid shares of the Company pursuant to the group reorganisation in 1996.

42. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Special reserve

Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(ii) Other reserve

Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

42. RESERVES (continued)

(b) Nature and purpose of reserves (continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(f) to the consolidated financial statements.

(iv) Financial assets at FVTOCI reserve

The financial assets at FVTOCI reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(n) to the consolidated financial statements.

43. RETIREMENT BENEFIT SCHEMES

The Group has participated in a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

As stipulated under the rules and regulations in the PRC, the subsidiaries established in the PRC are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement scheme operated by the provincial governments for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the above retirement schemes charged to profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$65,697,000 (2021: HK$30,124,000) represents contributions paid and payable to these schemes by the Group. At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Additions to right-of-use assets during the year of HK$1,082,000 (2021: HK$12,567,000) were financed by leases liabilities.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings	Dividend payable to non-controlling shareholders of subsidiaries	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021	19,780	–	3,661	23,441
Financing cash flows	46,057	(1,064)	(4,156)	40,837
Additions	–	–	12,567	12,567
Interest expenses	736	–	734	1,470
Dividends declared	–	1,064	–	1,064
At 31 December 2021 and 1 January 2022	66,573	–	12,806	79,379
Financing cash flows	(61,482)	(2,564)	(4,857)	(68,903)
Additions	–	–	1,082	1,082
Lease modifications	–	–	(3,719)	(3,719)
Interest expenses	984	–	570	1,554
Dividends declared	–	2,564	–	2,564
At 31 December 2022	6,075	–	5,882	11,957

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2022 *HK$'000*	2021 *HK$'000*
Within operating cash flows	53	190
Within investing cash flows	–	170
Within financing cash flows	4,857	4,156
	4,910	4,516

These amounts relate to the following:

	2022 *HK$'000*	2021 *HK$'000*
Lease rental paid	4,910	4,346
Purchase of leased properties and leasehold land	–	170
	4,910	4,516

45. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2022 *HK$'000*	2021 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– set up cost of investment in subsidiaries	89,103	112,635
– buildings under construction	1,191	801
– plant and machinery	32	687
– leasehold improvements	378	351
	90,704	114,474

46. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group regularly entered into short-term leases for offices and warehouses. As at 31 December 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 21.

The Group as lessor

Operating leases relate to investment property owned by the Group with lease terms of one to three years. All operating lease contracts contain market review clauses in the vent that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Minimum lease payments receivable on leases are as follows:

	2022 ***HK$'000***	2021 *HK$'000*
Within one year	**3,859**	847
In the second year	**2,789**	89
In the third year	**1,417**	–
	8,065	936

The following table presents the amounts reported in profit or loss:

	2022 ***HK$'000***	2021 *HK$'000*
Lease income on operating leases	**3,921**	2,148

47. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2022 HK$'000	2021 HK$'000
Sales of prescription frames and sunglasses to:		
an associate	142,358	78,503
a non-controlling shareholder of a subsidiary	–	84
	142,358	78,587
Purchase of prescription frames, sunglasses and raw materials from an associate	666	987

The Directors are of the opinion that the above transactions with the associate and non-controlling shareholder of a subsidiary were conducted in the usual course of business.

Other than the above, the details of loan to, trade debtors from and trade creditor to the associate and joint venture are shown in notes 26, 31 and 33 respectively. No guarantee has been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

During the year ended 31 December 2021, the Group entered into a new two-year lease agreement with a company which is controlled by a director of the Company. The Group has recognised additions of right-of-use asset of HK$2,617,000 and lease liabilities of HK$2,617,000 respectively.

(b) Compensation of key management personnel of the Group:

	2022 HK$'000	2021 HK$'000
Short term benefits	10,272	10,837
Post-employment benefits	589	606
	10,861	11,443

The remuneration of executive Directors and key executives was determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

48. ACQUISITION OF A SUBSIDIARY

On 24 March 2021, Arts Opti Lab (Shenzhen) Company Limited^（雅視光學科技（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 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 Stepper & Colors at the total consideration of RMB46,500,000 (equivalent to approximately HK$56,542,000), subject to adjustment. After acquisition, the Purchaser and the Sellers further agreed to inject an aggregate of RMB10,000,000 (equivalent to approximately HK$12,160,000) to Stepper & Colors in cash based on the percentage of their respective equity holding in Stepper & Colors. Stepper & Colors is a company established in Danyang City, Jiangsu Province of the PRC which is principally engaged in the design, manufacture, and sales of optical lens. The acquisition was completed on 26 April 2021. With the acquisition, the Group will be able to provide a one-stop solution to serve our customers by supplying optical frames together with lens. The acquisition has been accounted for as business combination using the acquisition method. For details of the acquisition, please refer to the Company's announcements dated 24 March 2021 and 26 April 2021.

^ *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.*

Consideration

	HK$'000
Cash consideration	56,542
Less: Contingent consideration arrangement *(note 29)*	(965)
	55,577

48. ACQUISITION OF A SUBSIDIARY (continued)

The fair value of the identifiable assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Current assets	
Inventories	7,675
Other debtors	1,233
Non-current assets	
Plant and equipment	34,120
Intangible assets	26,931
Deferred tax asset	1,403
Non-current liability	
Deferred tax liability	(6,733)
Fair value of net identifiable assets	64,629

Non-controlling interests

The non-controlling interests (45%) in Stepper & Colors recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net identifiable assets of Stepper & Colors and amounted to HK$29,083,000.

Goodwill arising on acquisition

	HK$'000
Consideration	55,577
Add: Non-controlling interests	29,083
Less: Fair value of net identifiable assets	(64,629)
Goodwill arising on acquisition	20,031

Net cash outflow on acquisition of a subsidiary

	HK$'000
Cash consideration	56,542

Acquisition-related costs of HK$778,000 have been charged to professional fee in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

48. ACQUISITION OF A SUBSIDIARY (continued)

Impact of acquisition on the results of the Group

The goodwill arising on the acquisition of Stepper & Colors is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Included in the profit for the year ended 31 December 2021 was a profit of HK$4,129,000 attributable to the additional business generated by Stepper & Colors. Revenue for the year ended 31 December 2021 included HK$54,685,000 in respect of Stepper & Colors.

If the acquisition had been completed on 1 January 2021, total Group revenue for the year would have been HK$1,166,436,000, and profit for the year would have been HK$26,974,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is intended to be a projection of future results.

49. CHANGE OF INTERESTS IN SUBSIDIARIES

Acquisition of additional interests in subsidiaries

During the year ended 31 December 2022, the Group has further acquired 8% shareholding of Lingke at a consideration of HK$184,000. After acquisition, the Group has indirectly held from 68% to 76%.

During the year ended 31 December 2022, one of the Group's subsidiary has further acquired 12% shareholding of Stepper China at nil consideration. After acquisition, the Group has indirectly held from 88% to 100%.

During the year ended 31 December 2021, the Group has further acquired 40% shareholding of Stepper Vision at nil consideration. After acquisition, the Group has indirectly held from 60% to 100%.

During the year ended 31 December 2021, one of the Group's subsidiary has further acquired 40% shareholding of Stepper China at a consideration of HK$1. After acquisition, the Group has indirectly held from 48% to 88%.

The effect of the above acquisitions on the equity attributable to owners of the Company is as follows:

	2022 ***HK$'000***	2021 *HK$'000*
Shares of net (liabilities)/assets in subsidiaries acquired	**(51)**	295
Considerations	**(184)**	(780)
	(235)	(485)

49. CHANGE OF INTERESTS IN SUBSIDIARIES (continued)

Disposal of partial interests in a subsidiary

During the year ended 31 December 2022, the Group has disposed 35% shareholding of Prima Ideas for a consideration of HK$35. After disposal, the Group has indirectly held from 100% to 65%.

The effect of the above disposal on the equity attributable to owners of the Company is as follows:

	2022 *HK$'000*	2021 *HK$'000*
Shares of net liabilities in a subsidiary disposed	106	–
Considerations	–	–
	106	–

50. 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:

	HK$'000
Sale proceed	90,600
Less: Carrying amounts of land and buildings *(note 21)*	(30,302)
Direct expenses relating to the Disposal	(1,480)
	58,818

51. EVENTS AFTER THE REPORTING PERIOD

There is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2018 *HK$'000*	2019 *HK$'000*	2020 *HK$'000*	2021 *HK$'000*	**2022** ***HK$'000***
REVENUE	1,196,013	1,040,962	742,618	1,152,941	**1,144,103**
(LOSS)/PROFIT BEFORE TAX	(25,031)	(129,283)	(512,299)	32,388	**127,078**
INCOME TAX EXPENSE	(9,555)	(2,470)	(556)	(6,501)	**(7,057)**
(LOSS)/PROFIT FOR THE YEAR	(34,586)	(131,753)	(512,855)	25,887	**120,021**
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	(38,294)	(136,292)	(511,830)	20,700	**114,773**
NON-CONTROLLING INTERESTS	3,708	4,539	(1,025)	5,187	**5,248**
	(34,586)	(131,753)	(512,855)	25,887	**120,021**

ASSETS AND LIABILITIES

	At 31 December				
	2018 *HK$'000*	2019 *HK$'000*	2020 *HK$'000*	2021 *HK$'000*	**2022** ***HK$'000***
TOTAL ASSETS	1,542,744	1,349,027	914,377	1,122,829	**1,091,157**
TOTAL LIABILITIES	(469,462)	(420,433)	(445,445)	(582,497)	**(485,208)**
	1,073,282	928,594	468,932	540,332	**605,949**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,045,415	896,658	426,544	453,633	**519,217**
NON-CONTROLLING INTERESTS	27,867	31,936	42,388	86,699	**86,732**
	1,073,282	928,594	468,932	540,332	**605,949**

PROPERTIES HELD FOR INVESTMENT

LIST OF INVESTMENT PROPERTIES

Location	Type of properties	Lease term
Flat H, J, K on 32nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Office premises	Medium-term lease
Car parking spaces no. P35 to P43 on 2nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Car parks	Medium-term lease
Lot CN6, Ba Thien Industrial Park Ba Hien Commune Binh Xuyen District Vinh Phuc Province, Vietnam	Factory premises	Medium-term lease

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

CHIEF EXECUTIVE OFFICER

NG Yat Shan

COMPANY SECRETARY

CHOI Pui Yiu

AUDITOR

RSM Hong Kong
Registered Public Interest Entity Auditor

LEGAL ADVISERS

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Conyers Dill & Pearman

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 1120