

AOI
2023

INTERIM
REPORT
中期報告

Arts Optical International Holdings Limited
(Incorporated in Bermuda with limited liability)
Stock Code : 1120

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased slightly by 2% to HK\$566.4 million (2022: HK\$580.1 million) for the six months ended 30 June 2023. During the period under review, the Group recorded a net profit attributable to owners of the Company of HK\$21.7 million and a profit per share of 5.61 HK cents respectively (2022: HK\$28.5 million and 7.37 HK cents respectively).

The major reason for the decrease in net profit attributable to owners of the Company was mainly due to the strengthening of the Renminbi exchange rate during the six months ended 30 June 2023. Since the majority of the Group's revenue was denominated in United States dollars and the majority of the Group's liabilities were denominated in Renminbi, the Group recorded a significant loss on exchange rate differences of HK\$4.2 million during the six months ended 30 June 2023.

Original design manufacturing ("ODM") division

Revenue generated by the ODM division contributed 70% to the consolidated revenue of the Group in the period under review (2022: 72%). Sales to ODM customers decreased by 5% from HK\$418.3 million in the first six months of 2022 to HK\$398.1 million in the first six months of 2023. The decrease in revenue was mainly due to the weakened consumer confidence in Europe and the United States (the "US") as a result of the high inflation rate and the war between Russia and Ukraine. Geographically, sales to Europe, the US, Asia and other regions accounted for 61%, 23%, 15% and 1% respectively (2022: 61%, 25%, 12% and 2% respectively) of the revenue of the ODM division during the period under review. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 42%, 52% and 6% of the revenue generated by the ODM division respectively during the period under review (2022: 46%, 49% and 5% respectively).

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, South Africa, Mainland China, Germany and Italy, and to independent distributors in other countries. Revenue for the distribution division increased slightly by 2% to HK\$129.7 million (2022: HK\$127.0 million) and accounted for 23% (2022: 22%) of the consolidated revenue during the six months ended 30 June 2023. Sales to Europe, the US, Asia and other regions accounted for 69%, 9%, 10% and 12% respectively of the revenue of the distribution division during the period under review (2022: 64%, 9%, 12% and 15% respectively). Sales to Europe increased significantly by 9% as compared to the same period last year. The growth in sales was mainly attributable to our own distributors in the United Kingdom and Italy during the period under review. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Lens division

Revenue for the lens division was HK\$38.6 million (2022: HK\$34.8 million) and accounted for 7% (2022: 6%) of the consolidated revenue during the six months ended 30 June 2023. Sales increased significantly by 11% as compared to the same period last year mainly because the Mainland China government had gradually ended the zero-COVID policy since the December of 2022. At the moment, 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\$59.1 million during the period under review (2022: HK\$51.4 million) and which was mainly resulted from cash flow derived from the net profit for the period under review. The net cash position of the Group (being the short-term bank deposits, bank balances and cash less bank borrowings) decreased from HK\$184.8 million as at 31 December 2022 to HK\$173.4 million as at 30 June 2023. The decrease in net cash position was mainly due to the payment of dividends of HK\$38.6 million to shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital management

In contrast to the decrease in revenue during the period under review, both of the inventory balance and total amount of trade debtors and bills receivable balances increased by 5% from HK\$129.9 million and HK\$310.5 million as at 31 December 2022 to HK\$136.6 million and HK\$327.2 million as at 30 June 2023. The reason behind was that the production and shipment activities in Mainland China were interrupted by the widespread of COVID-19 during the first two months of 2023 and sales have been gradually caught up from March 2023 after the COVID-19 under control. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 95 days for the six months ended 30 June 2022 to 105 days for the period under review. There was no sign of deterioration in collecting payments from trade debtors as compared to the corresponding period in last year. On the other hand, inventory turnover period (being the ratio of inventory balances to cost of sales) slightly decreased from 66 days for the six months ended 30 June 2022 to 63 days for the period under review because of the strong demand of goods delivery since the second quarter of 2023 after productions and shipments activities resumed normal. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.3 as at 30 June 2023 compared to 1.4 as at 31 December 2022.

Gearing position

The Group's gearing position remained low throughout the period under review. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained low at around 5% as at 30 June 2023 and around 4% as at 31 December 2022. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$21.7 million as at 30 June 2023 (31 December 2022: HK\$18.3 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 30 June 2023 and 31 December 2022 with equity attributable to owners of the Company of HK\$514.7 million and HK\$519.2 million as at 30 June 2023 and 31 December 2022 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 30 June 2023 was HK\$1.33 (31 December 2022: HK\$1.34).

Contingent liabilities

As at 30 June 2023, the Group did not have significant contingent liabilities (31 December 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on the Group's assets

As at 30 June 2023, the Group's investment properties and leasehold land and buildings pledged as security for the Group's bank borrowings amounted to HK\$3.8 million (31 December 2022: HK\$6.1 million). Details of bank borrowings are set out in note 15 to the unaudited condensed consolidated financial statements.

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both United States dollars and Hong Kong dollars. Save for 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 noted that there was potential exposure to the change in the value of the Renminbi yet the range of movement was relatively limited. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

PROSPECTS

Market outlook

Same as the last year in the corresponding period under review, the global economy has been facing continued volatility and uncertainty with inflationary pressures and geopolitical tensions in both Europe and Asia. The management expected that the business environment for eyewear industry is tough and challenging. Meanwhile, the pricing pressure from the ODM customers will limit the growth of the ODM business.

On the other hand, the higher profit margins of the distribution and lens divisions demonstrate their growing importance to the future development of the Group. The Group will continue to seek business opportunities with prudence so as to increase the contribution of these businesses either through establishment of our own network or forming joint ventures with strategic distribution partner(s).

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

Save as disclosed herein, there are no important events affecting the Group which have occurred after the end of financial period for the six months ended 30 June 2023 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2023, the Group employed approximately 3,600 (31 December 2022: 3,500) full-time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

Ng Hoi Ying, Michael

Chairman

Hong Kong, 29 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Unaudited	
		Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Revenue	4	566,454	580,057
Cost of sales		(395,227)	(419,446)
Gross profit		171,227	160,611
Other income		14,993	16,975
Other gains and losses		(5,303)	9,456
(Impairment loss)/reversal of impairment loss		(460)	451
Distribution and selling expenses		(20,984)	(21,771)
Administrative expenses		(136,375)	(132,345)
Other expenses		(457)	(673)
Profit from operations		22,641	32,704
Finance costs	5	(329)	(1,049)
Share of profit of an associate		9,248	2,362
Profit before tax		31,560	34,017
Income tax expense	6	(7,063)	(3,004)
Profit for the period	7	24,497	31,013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Other comprehensive income/(expense) after tax:		
<i>Item that will not be reclassified to profit or loss:</i>		
Revaluation increase upon transfer from property, plant and equipment to investment properties	–	259
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	12,518	(21,662)
Exchange differences arising on translation of an associate	1,137	(3,145)
Realisation of exchange reserve upon deregistration of a subsidiary	(95)	–
Realisation of exchange reserve upon disposal of an equity investment at fair value through other comprehensive income (“FVTOCI”)	(14)	–
	13,546	(24,807)
Other comprehensive income/(expense) for the period, net of tax	13,546	(24,548)
Total comprehensive income for the period	38,043	6,465

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Note	Unaudited	
		Six months ended 30 June 2023	2022
		HK\$'000	HK\$'000
Profit for the period attributable to:			
Owners of the Company		21,675	28,466
Non-controlling interests		2,822	2,547
		24,497	31,013
Total comprehensive income for the period attributable to:			
Owners of the Company		34,329	6,401
Non-controlling interests		3,714	64
		38,043	6,465
		HK cents	HK cents
Profit per share			
Basic and diluted	9	5.61	7.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	Notes	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Non-current assets			
Investment properties	10	81,319	87,316
Property, plant and equipment	11	203,157	207,214
Deposits paid for acquisition of property, plant and equipment		61,487	38,726
Intangible assets		20,193	21,873
Goodwill		25,817	25,293
Investment in an associate	12	49,921	39,869
Investments in joint ventures		1,306	1,306
Equity investments at FVTOCI		7,356	7,666
Contingent consideration receivable		57	57
Deferred tax assets		6,761	6,411
		457,374	435,731
Current assets			
Inventories		136,616	129,898
Debtors, deposits and prepayments	13	355,451	334,370
Tax recoverable		540	292
Short-term bank deposit		1,161	1,156
Bank balances and cash		176,107	189,710
		669,875	655,426
Current liabilities			
Creditors and accrued charges	14	467,072	429,355
Contract liabilities		8,198	8,458
Refund liabilities		6,495	7,200
Lease liabilities		3,248	2,332
Bank borrowings	15	3,828	6,075
Tax liabilities		9,770	9,396
		498,611	462,816
Net current assets		171,264	192,610
Total assets less current liabilities		628,638	628,341

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Consideration payable	12	556	556
Lease liabilities		2,620	3,550
Deferred tax liabilities		21,742	18,286
		24,918	22,392
NET ASSETS		603,720	605,949
Capital and reserves			
Share capital	16	38,626	38,626
Reserves		476,071	480,591
Equity attributable to owners of the Company		514,697	519,217
Non-controlling interests		89,023	86,732
TOTAL EQUITY		603,720	605,949

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Special reserve	Other reserve	Exchange reserve	Property revaluation reserve	Retained profits	Sub-total		
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2022 (audited)	38,626	118,706	(3,269)	4,833	85,179	39,177	170,381	453,633	86,699	540,332
Total comprehensive (expense)/ income for the period (unaudited)	-	-	-	-	(22,324)	259	28,466	6,401	64	6,465
Dividends paid to non-controlling shareholders of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	(2,000)	(2,000)
Changes in equity for the period (unaudited)	-	-	-	-	(22,324)	259	28,466	6,401	(1,936)	4,465
At 30 June 2022 (unaudited)	38,626	118,706	(3,269)	4,833	62,855	39,436	198,847	460,034	84,763	544,797
At 1 January 2023 (audited)	38,626	118,706	(3,269)	4,704	35,860	39,436	285,154	519,217	86,732	605,949
Total comprehensive income for the period (unaudited)	-	-	-	-	12,654	-	21,675	34,329	3,714	38,043
Dividends paid to owners of the Company (unaudited)	-	-	-	-	-	-	(38,626)	(38,626)	-	(38,626)
Acquisition of additional interests in a subsidiary (unaudited)	-	-	-	(223)	-	-	-	(223)	56	(167)
Deregistration of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	(1,479)	(1,479)
Changes in equity for the period (unaudited)	-	-	-	(223)	12,654	-	(16,951)	(4,520)	2,291	(2,229)
At 30 June 2023 (unaudited)	38,626	118,706	(3,269)	4,481	48,514	39,436	268,203	514,697	89,023	603,720

Notes:

- (a) 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.
- (b) 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	59,145	51,418
Acquisition of further interests in a subsidiary	(167)	–
Proceed from disposal of equity investment at FVTOCI	185	–
Purchase of property, plant and equipment	(6,169)	(16,410)
Proceeds from disposal of property, plant and equipment	1,690	5,741
Interest received	664	210
Purchase of equity investment at FVTOCI	–	(3,071)
Proceed from disposal of equity investment at fair value through profit or loss (“FVTPL”)	–	13,104
Placement of short-term bank deposit	(1,161)	(1,180)
Withdrawal of short-term bank deposit	1,156	4,623
Deposits paid for acquisition of property, plant and equipment	(25,127)	(18,007)
Deposit received in relation to assets classified as held for sale	–	9,060
NET CASH USED IN INVESTING ACTIVITIES	(28,929)	(5,930)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cash dividends paid to owners of the Company	(38,626)	–
Cash dividends paid to non-controlling shareholders of a subsidiary	–	(2,000)
Payments to non-controlling shareholders in respect of deregistration of a subsidiary	(1,479)	–
New bank borrowings raised	3,000	31,043
Interest paid on bank borrowings	(99)	(703)
Interest paid on lease liabilities	(230)	(346)
Repayments of bank borrowings	(5,247)	(56,427)
Repayments of lease liabilities	(2,472)	(2,986)
NET CASH USED IN FINANCING ACTIVITIES	(45,153)	(31,419)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(14,937)	14,069
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	189,710	136,956
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,334	(6,532)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	176,107	144,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the 2022 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2022.

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

Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leasing transactions, the Group is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur after the beginning of the earliest period presented.

The Group previously accounted for deferred tax on leases applying the “integrally linked” approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was recognised on a net basis. Following the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the condensed consolidated statement of financial position because the balances qualify for offset under paragraph 74 of HKAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Group relates to disclosure of the deferred tax assets and liabilities recognised. This disclosure will be provided in the annual financial statements.

The change in accounting policy will also be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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

In addition to the adoption of the above amendments to standards, in the current period, the Group has adopted all other new and revised Hong Kong Financial Reporting Standards issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. They do not have a material effect on the Group's condensed consolidated financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

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

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 value:

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value of the carrying amount is a reasonable approximation of fair value.

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurements as at 30 June 2023 (unaudited) Level 3 HK\$'000
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTOCI – Unlisted equity securities	7,356
Contingent consideration receivable	57
	7,413
Investment properties	
Commercial units – Hong Kong	57,500
Factory premises – Vietnam	23,819
	81,319
Total	88,732

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

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

Description	Fair value measurements as at 31 December 2022 (audited) Level 3 <i>HK\$'000</i>
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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

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

Assets

Description	Financial assets at FVTOCI –	Contingent	Investment	2023
	Unlisted equity securities	consideration receivable	properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2023	7,666	57	87,316	95,039
Total gains or losses recognised in profit or loss (#)	-	-	(700)	(700)
Disposal	(310)	-	-	(310)
Reclassification to property, plant and equipment	-	-	(5,400)	(5,400)
Exchange realignment	-	-	103	103
At 30 June 2023	7,356	57	81,319	88,732
(#) Include gains or losses for assets held at end of reporting period	-	-	(700)	(700)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

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

Assets

Description	Financial assets at FVTOCI –	Contingent	Investment	2022
	Unlisted equity securities	consideration receivable	properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022	–	965	142,400	143,365
Total gains or losses recognised in profit or loss (#)	–	–	1,772	1,772
Initial recognition	3,071	–	–	3,071
Reclassification from property, plant and equipment	–	–	24,112	24,112
Reclassification to property, plant and equipment	–	–	(81,000)	(81,000)
Exchange realignment	–	–	(374)	(374)
At 30 June 2022	3,071	965	86,910	90,946
(#) Include gains or losses for assets held at end of reporting period	–	–	1,772	1,772

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2023:

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 (the "Board") of directors of the Company (the "Directors") 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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2023: (continued)

Level 3 fair value measurements				Effect on fair value for increase of inputs	Fair value – Assets	
Description	Valuation techniques	Unobservable inputs	Range		30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Investment properties						
– Commercial units – Hong Kong	Income capitalisation approach	Reversion yield	2.8% (31 December 2022: 2.8%)	Decrease	57,500	63,600
		Monthly market rent	Office portion: HK\$37.9 to HK\$39.9 (31 December 2022: HK\$37.9 to HK\$39.9) per square foot per month on lettable area basis	Increase		
			Car parking space portion: HK\$3,300 to HK\$3,500 (31 December 2022: HK\$3,300 to HK\$3,400) per car parking space per month			
Investment properties						
– Factory premises – Vietnam	Market comparable approach	Market prices	US\$156 (31 December 2022: US\$156) per square meter	Increase	23,819	23,716
Financial assets at FVTOCI	Discount cash flow	Discount rate	17% (31 December 2022: 17%)	Decrease	7,356	7,666
		Discount of lack of marketability	15.8% (31 December 2022: 15.8%)	Decrease		
Contingent consideration receivable	Probability-weighted payment approach	Discount rate	15.7% (31 December 2022: 15.7%)	Decrease	57	57
		Probability	10% (31 December 2022: 10%)	Increase		

There were no changes in the valuation techniques used.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, interest income, property rental income, net foreign exchange gains or losses, increase or decrease in fair values of investment properties, losses on disposal of equity investments at FVTPL and FVTOCI, finance costs and share of profit of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment revenues and results

The following is an analysis of the Group's revenue and result by operating and reportable segment for the period under review:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2023 (unaudited)

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Revenue from contracts with customers (Note)</i>					
Original design					
manufacturing division	244,830	92,137	58,434	2,714	398,115
Distribution division	88,756	11,689	13,283	16,002	129,730
Lens division	-	-	38,609	-	38,609
Revenue from external customers	333,586	103,826	110,326	18,716	566,454
<i>Result</i>					
Segment profit	25,419	6,675	7,843	2,053	41,990
Unallocated income and gains					2,001
Unallocated corporate expenses and losses					(22,014)
Interest income on bank deposits					664
Finance costs					(329)
Share of profit of an associate					9,248
Profit before tax					31,560

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

4. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2022 (unaudited)

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from contracts with customers (Note)					
Original design					
manufacturing division	254,644	104,128	50,686	8,790	418,248
Distribution division	81,542	11,802	14,733	18,951	127,028
Lens division	–	–	34,781	–	34,781
Revenue from external customers	336,186	115,930	100,200	27,741	580,057
Result					
Segment profit	19,074	9,864	4,882	2,260	36,080
Unallocated income and gains					12,186
Unallocated corporate expenses and losses					(15,772)
Interest income on bank deposits					210
Finance costs					(1,049)
Share of profit of an associate					2,362
Profit before tax					34,017

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

5. FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Interests on bank borrowings	99	703
Interests on lease liabilities	230	346
	329	1,049

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Current period:		
Hong Kong Profits Tax	1,294	729
The People's Republic of China (excluding Hong Kong) (the "PRC") Enterprise Income Tax	43	–
United Kingdom Corporation Tax	1,585	1,197
France Corporation Tax	205	137
South Africa Corporation Tax	88	109
Italy Corporation Tax	219	26
Vietnam Corporation Tax	185	70
Deferred taxation	3,111	724
	6,730	2,992
Underprovision in respect of prior period:		
Hong Kong Profits Tax	192	–
PRC Enterprise Income Tax	141	12
	333	12
	7,063	3,004

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

6. INCOME TAX EXPENSE (continued)

Under the two-tiered Profits Tax rate regime, the first HK\$2 million of profits of 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 Profits Tax rate regime will continue to be taxed at a rate of 16.5% for both periods.

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 periods.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% before 1 April 2023 and increased to 25% from 1 April 2023 (six months ended 30 June 2022: 19%) in accordance with the relevant law and regulations in the United Kingdom for the period.

France Corporation Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in France for both periods.

South Africa Corporation Tax is calculated at the applicable rate of 28% and reduced to 27% after 31 March 2023 (six months ended 30 June 2022: 28%) in accordance with the relevant law and regulations in South Africa for the period.

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 both periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Amortisation of intangible assets (included in distribution and selling expenses)	2,280	2,391
Impairment loss/(reversal of impairment loss) recognised on debtors	460	(451)
Cost of inventories recognised as an expense	395,227	419,446
Depreciation of property, plant and equipment	14,760	13,626
Decrease/(increase) in fair values of investment properties	700	(1,772)
Gross rental income from investment properties (included in other income)	(2,001)	(1,912)
Less: Direct operating expenses of investment properties that generated rental income during the period	140	345
	(1,861)	(1,567)
Net loss/(gain) on disposal of property, plant and equipment (included in other gains and losses)	266	(1,389)
Loss on disposal of equity investment at FVTOCI (included in other gains and losses)	125	–
Allowance for inventories, net (included in cost of sales)	616	10,340
Net foreign exchange losses/(gains) (included in other gains and losses)	4,212	(7,073)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. DIVIDENDS

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Final dividend paid of 5.0 HK cents per share in respect of 2022 (2022: nil per share in respect of 2021)	19,313	–
Special dividend paid of 5.0 HK cents per share in respect of 2022 (2022: nil per share in respect of 2021)	19,313	–
	38,626	–

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 and 30 June 2022.

During the six months ended 30 June 2023, the Board resolved to recommend the payment of a final dividend of 5.0 HK cents per share in respect of 2022 and a special dividend of 5.0 HK cents per share in respect of 2022, total amounting to HK\$38,626,000 for the year ended 31 December 2022. During the six months ended 30 June 2022, the Board did not recommend the payment of a final dividend for the year ended 31 December 2021.

9. PROFIT PER SHARE

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Profit for the purpose of basic profit per share – Profit for the period attributable to owners of the Company	21,675	28,466

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

9. PROFIT PER SHARE (continued)

	2023 <i>Number of shares</i>	2022 <i>Number of shares</i>
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 for both periods.

10. INVESTMENT PROPERTIES

	30 June 2023 <i>HK\$'000</i> <i>(unaudited)</i>	31 December 2022 <i>HK\$'000</i> <i>(audited)</i>
At 1 January	87,316	142,400
(Decrease)/increase in fair value recognised in profit or loss	(700)	2,665
Reclassification from property, plant and equipment (<i>note 11</i>)	–	24,112
Reclassification to property, plant and equipment (<i>note 11</i>)	(5,400)	(81,000)
Exchange realignment	103	(861)
At 30 June/31 December	81,319	87,316

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

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 techniques and key inputs to the model.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

10. INVESTMENT PROPERTIES (continued)

On 30 June 2023, independent valuations were undertaken by Vigers Appraisal & Consulting Limited (“Vigers”) and Vietnam Valuation and Financial Consultancy Company (“VVFC”), both are independent firms of professional valuers not connected to the Group which have 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.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of approximately HK\$10,993,000 (six months ended 30 June 2022: HK\$16,578,000).

During the six months ended 30 June 2023, the Group changed the usage of three units of car parking spaces in Hong Kong from investment properties to owner occupation. Accordingly, the relevant portion of the car parking spaces with carrying amount of HK\$5,400,000 was transferred from investment properties to property, plant and equipment at their fair values on the date of transfer of HK\$5,400,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the date of transfer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

11. PROPERTY, PLANT AND EQUIPMENT (continued)

During the six months ended 30 June 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 were transferred from property, plant and equipment to investment properties at their fair values on the date of transfer of HK\$24,112,000 which were determined by the Directors with reference to the valuation carried out by VVFC at the date of transfer. The difference between the fair values of the factory premises and their carrying amounts at the date of transfer amounting to HK\$259,000 has been credited to property revaluation reserve.

During the six months ended 30 June 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 six months ended 30 June 2023, the Group entered into a new lease agreement for use of factory for 2 years. The Group has recognised an addition of right-of-use assets of HK\$2,458,000 included in additions of property, plant and equipment and lease liabilities of HK\$2,458,000 respectively.

12. INVESTMENT IN AN ASSOCIATE

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 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 dividend. The transaction was completed on 10 April 2019. Up to 30 June 2023, the Group has paid EUR724,500 (equivalent to approximately HK\$6,419,000) (31 December 2022: EUR724,500 (equivalent to approximately HK\$6,419,000)) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

13. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing a credit period of 30 days to 150 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$327,028,000 (31 December 2022: HK\$310,226,000). 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:

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0 – 90 days	241,987	213,375
91 – 180 days	80,129	89,505
More than 180 days	4,912	7,346
	327,028	310,226

As at 30 June 2023, total bills receivable amounting to HK\$146,000 (31 December 2022: HK\$254,000) are held by the Group for settlement of debtors. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills receivable by the Group are with a maturity period of less than one year.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

During the six months ended 30 June 2023, the Group provided the impairment allowance of HK\$460,000 (six months ended 30 June 2022: reversed the impairment allowance of HK\$451,000), in particular, a specific loss allowance of HK\$10,000 (six months ended 30 June 2022: nil) has been made to individual debtors where recoverability is considered to be remote.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

13. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Trade debtors due from the associate and joint venture

As at 30 June 2023, included in the Group's trade debtors is an amount due from the Group's associate of HK\$81,697,000 (31 December 2022: HK\$83,106,000) net of allowance for credit losses of HK\$909,000 (31 December 2022: HK\$924,000) and an amount due from the Group's joint venture of nil (31 December 2022: nil) net of allowance for credit losses of HK\$40,000 (31 December 2022: 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. As at 30 June 2023, the amounts outstanding are unsecured with carrying amount of HK\$3,557,000 (31 December 2022: HK\$17,268,000) which are past due balances, HK\$39,000 (31 December 2022: HK\$40,000) has been past due 90 days or more and is not considered as in default. As at 30 June 2023, an impairment loss of HK\$949,000 (31 December 2022: HK\$964,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

14. CREDITORS AND ACCRUED CHARGES

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Trade creditors	128,696	116,857
Other creditors and accrued charges	338,376	312,498
	467,072	429,355

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

14. CREDITORS AND ACCRUED CHARGES (continued)

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

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
0 – 60 days	111,402	102,920
61 – 120 days	14,378	8,438
More than 120 days	2,916	5,499
	128,696	116,857

Trade creditor due to the associate

As at 30 June 2023, included in the Group's trade creditors is an amount due to the Group's associate of HK\$733,000 (31 December 2022: HK\$238,000), 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.

15. BANK BORROWINGS

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Secured bank borrowings	3,828	6,075

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

15. BANK BORROWINGS (continued)

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

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Within one year	3,828	4,531
More than one year, but not exceeding two years	—	1,544
	3,828	6,075
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(3,828)	(6,075)
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\$3,828,000 (31 December 2022: HK\$6,075,000) 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\$140,057,000 (31 December 2022: HK\$142,737,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

16. SHARE CAPITAL

	Number of shares		Nominal value	
	30 June 2023 (unaudited)	31 December 2022 (audited)	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of period	1,000,000,000	1,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning and end of period	386,263,374	386,263,374	38,626	38,626

17. CAPITAL COMMITMENTS

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

	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– set up cost of investment in subsidiaries	91,306	89,103
– buildings under construction	44,760	1,191
– plant and machinery	551	32
– leasehold improvements	841	378
– equity investment at FVTOCI	2,196	–
	139,654	90,704

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Sales of prescription frames and sunglasses to an associate	84,347	59,634
Purchase of prescription frames, sunglasses and raw materials from an associate	1,082	405

The Directors are of the opinion that the above transactions with the associate were conducted in the usual course of business.

Other than the above, the details of trade debtors from and trade creditor to the associate and joint venture are shown in notes 13 and 14 respectively. No guarantee has been given to or received from the associate and joint venture.

During the six months ended 30 June 2023, 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 assets of HK\$2,458,000 and lease liabilities of HK\$2,458,000 respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. RELATED PARTY TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Short term benefits	5,280	5,552
Post-employment benefits	331	340
	5,611	5,892

The remuneration of Directors and key executives was determined by the remuneration committee of the Company having regard to the performance of individuals and market trends. The shareholders of the Company authorised the remuneration committee to fix the remuneration of the Directors, including independent non-executive directors at the annual general meeting.

19. APPROVAL OF FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board on 29 August 2023.

SUPPLEMENTARY INFORMATION

DIVIDENDS

The board (the "Board") of directors of the Company (the "Directors") has resolved not to declare any interim dividend (2022: nil) for the six months ended 30 June 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of conduct regarding securities transactions by 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 six months ended 30 June 2023.

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 six months ended 30 June 2023.

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

As at 30 June 2023, 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, 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	176,112,000	45.59%
			(Note a)		
Ng Yat Shan	3,766,000	–	–	3,766,000	0.97%
Ng Kim Ying	23,126,347	5,000,000	–	28,126,347	7.28%
Wu Zhihong	19,656,000	156,456,000	–	176,112,000	45.59%
		(Note b)			

SUPPLEMENTARY INFORMATION

Notes:

- (a) 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.
- (b) Ms. Wu Zhihong is the spouse of Mr. Ng Hoi Ying, Michael and is therefore deemed to be interested in all the shares held/interested by Mr. Ng Hoi Ying, Michael pursuant to Part XV of the SFO.

Save as disclosed above, as at 30 June 2023, 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, 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 30 June 2023, 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%
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%

SUPPLEMENTARY INFORMATION

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.
- (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 30 June 2023.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2023.

An 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 Group's interim report comprising its unaudited condensed consolidated financial statements for the six months ended 30 June 2023 has been reviewed by the Audit Committee, which was of the opinion that its preparation had complied with applicable accounting standards and requirements and that adequate disclosures were made.

SUPPLEMENTARY INFORMATION

A 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. The major roles and functions of the Remuneration Committee include the determination of remuneration of the executive directors, independent non-executive directors and senior management as well as the review and approval of the management's remuneration proposals with reference to the Board's corporate goals and objectives.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (the chairman of the Nomination Committee), Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Dr. Fong Kin Kiu, all of whom are independent non-executive directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and determining the nomination criteria and nomination procedures of appointment of new and replacement directors, re-election of directors and nomination from shareholders.

CORPORATE INFORMATION

Board of directors

Executive directors

NG Hoi Ying, Michael (Chairman)
NG Yat Shan (Chief executive officer)
(appointed on 8 June 2023)
NG Kim Ying
WU Zhihong
(appointed on 8 June 2023)

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung
FONG Kin Kiu
(appointed on 8 June 2023)

Company secretary

CHOI Pui Yiu

Auditor

RSM Hong Kong
Registered Public Interest Entity Auditor

Legal advisers

Stephenson Harwood
Conyers Dill & Pearman

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong

Units A to G, 32nd Floor, King Palace Plaza
55 King Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal share registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal bankers

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

Website

www.artsgroup.com

