

INTERIM REPORT

2003



Arts Optical International Holdings Limited

雅視光學集團有限公司

(Incorporated in Bermuda with limited liability)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael – Chairman
HUI Pui Woon
NG Kim Ying
LEE Wai Chung

Independent non-executive directors

Francis George MARTIN
KWONG Kam Kwan Alex

COMPANY SECRETARY

LEE Wai Chung

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Allen & Overy
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Summary of results

As reported in the 2002 Annual Report, 2003 continues to be another challenging and difficult year for the global economy as well as the Group. The Group's consolidated turnover decreased by 17% to HK\$241.4 million (2002: HK\$289.8 million) whereas its net profit decreased by 28% to HK\$36.1 million (2002: HK\$50.1 million) respectively in the 6 months ended June, 2003. Basic earnings per share also decreased by 29% to 9.6 cents (2002: 13.6 cents) in the first half of 2003.

The relatively greater decline in net profit as compared to turnover in the period under review was attributable to the decline in gross profit margin from 35.4% in the first 6 months of 2002 to 34.5% in the corresponding period of 2003 as a result of the effect of dis-economies of scale arising from the reduction in production level and the additional HK\$2.0 million deferred taxation charge in 2003 following the adoption of the revised accounting standard on Income Taxes.

Original design manufacturing (ODM) division

Europe and the United States remained the key markets for the Group's ODM division and accounted for 44% and 43% respectively of the sales of this division in the first 6 months of the year (2002: 45% and 43%). Export sales orders began to slow down since December 2002 and this trend continued in the first half of 2003, amid the poor consumer spending sentiment in these markets and the military conflict in the Middle East. Sales to ODM customers decreased by 17% to HK\$211.1 million (2002: HK\$255.0 million) in the first half of 2003.

Distribution division

The marketing and sales activities of the Group's distribution division were adversely affected by the outbreak of severe acute respiratory syndrome ("SARS") as the epidemic principally affected the major markets of this division. Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 4% to HK\$15.4 million in the 6 months ended 30th June, 2003 (2002: HK\$16.1 million). Sales to Europe (mainly United Kingdom) and Asia accounted for 40% and 32% respectively of the Group's turnover of distribution division in the period under review (2002: 35% and 50%). The decline in the amount and relative proportion of sales to Asian customers was mainly due to the impact of SARS in the second quarter of 2003.

Retailing division

The Group implemented a consolidation plan in its retailing business in mainland China in the first 6 months of 2003. Total number of shops dropped from 73 at 31st December, 2002 to 33 at 30th June, 2003. Shops that did not meet the Group's predetermined performance target were either closed or relocated and the two lines of chains, namely Arts 1000 and Sunny Arts, were combined in the cities of Beijing, Nanjing and Shanghai. The outbreak of SARS during April to June also affected the sales performance of this division as it affected sales during the labour day holiday in May, which usually accounted for a substantial amount of the Group's sales during the first 6 months of a year. Turnover of the retailing division decreased by 20% to HK\$14.9 million in the first six months of 2003 (2002: HK\$18.7 million).

Prospects

ODM Division

With the easing of military conflict in the Middle East and signs of economic recovery in the United States since the middle of 2003, the Group's major customers show a more aggressive approach in launching new marketing projects and replenishment of inventory. Sales orders received in the months of July and August registered a rebound as compared to the corresponding period of last year. As the impact on sales as a result of the order rebound will only be reflected in the last quarter of 2003, the management is cautiously optimistic about the financial performance of the second half of 2003.

Distribution Division

The Group has critically reviewed the financial performance of its own brands and licensed brands in 2003. More resources will be devoted to those brands with better business potential while the rest will be gradually phased out. The Group obtained the exclusive right to manufacture and distribute the Italian fashion brand "Fiorucci" for the entire Asia excluding Japan for a term of 5 years commencing in April 2003. Sales of Fiorucci eyewear will commence in the second half of the year.

Retailing Division

The consolidation exercise has been substantially completed and the coming challenging task is to fully explore the earning potential of existing sales network. A new corporate image has been launched in Beijing with encouraging response. Despite the relatively strong performance of the economy of China, competition in the retail environment remains keen and deflation as well as inadequate regulatory infrastructure are the biggest challenges facing all the retailers. A long term and cautious approach in the expansion of this division is being adopted with further capital investment be made only in key strategic areas.

Summary

Although the Group is operating in a highly unpredictable and competitive environment in 2003 and recorded a decline in its financial performance in the first 6 months of the year, the management believes that there are signs indicating that a business rebound is looming. As stated in the previous financial reports, the management will continue to adopt the established guiding principles of business diversification and financial prudence with the ultimate objective of bringing long-term profitability to the Group and value creation to its shareholders. The payment of a special dividend is one of the means of rewarding the long term support from the shareholders to the Group.

Financial Review

During the period under review, the Group's operating activities generated net cash inflow of HK\$71.5 million (2002: HK\$70.4 million). In view of the uncertain business environment, capital expenditure spent in the production facilities and retailing business was closely monitored. Despite the decline in profitability, the Group still managed to increase its net cash position (bank and cash balance plus pledged bank deposit less bank borrowings, if any) from HK\$214.1 million at 31st December, 2002 to HK\$215.9 million at 30th June, 2003. The Group did not have any bank borrowings at 30th June, 2003.

The Group placed strong emphasis on balance sheet management and cash earnings. The current ratio of the Group as at 30th June, 2003 was 5.1 to 1 (31st December, 2002: 4.3:1) with HK\$405.4 million of current assets (31st December, 2002: HK\$441.0 million) and HK\$79.4 million of current liabilities (31st December, 2002: HK\$102.7 million). As a result of the management's strenuous efforts in reducing the delivery lead time in anticipation of the industry trend, inventory turnover period (ratio of inventory balance to cost of sales) decreased from 78 days in the first 6 months of 2002 to 73 days in the corresponding period of 2003. Debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased from 71 days in the first 6 months of 2002 to 81 days in the corresponding period of 2003 as a result of granting of longer credit terms to a selected group of customers.

The Group had 374,410,000 shares in issue at both 30th June, 2003 and 31st December, 2002 with a total shareholders' equity amounting to HK\$586.1 million and HK\$580.0 million at 30th June, 2003 and 31st December, 2002 respectively. Net asset value per share as at 30th June, 2003 was HK\$1.57 (31st December, 2002: HK\$1.55). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity) were HK\$9.2 million (31st December, 2002: HK\$7.4 million) and 1.6% (31st December, 2002: 1.3%) respectively. The management expects the Group to continue to maintain a strong financial position and liquid balance sheet after the payment of the special dividend which will have the effect of enhancing the return on equity of the Group.

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 and Renminbi and the exchange rates movements between these currencies were relatively stable during the period under review. The Group is in active discussion with its bankers to seek alternative ways of hedging the risks of appreciation of Renminbi against other currencies.

Employee and Remuneration Policies

The Group employed approximately 4,900 full time staff as at 30th June, 2003. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market price 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 cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

Ng Hoi Ying, Michael

Chairman

Hong Kong, 10th September, 2003

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 8 to 19.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 10th September, 2003

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30th June, 2003*

| | | Six months ended | |
|----------------------------------|--------------|-------------------------|--------------------|
| | | 30.6.2003 | 30.6.2002 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(unaudited)</i> | <i>Restated</i> |
| | | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Turnover | 3 | 241,400 | 289,763 |
| Cost of sales | | <u>(158,111)</u> | <u>(187,304)</u> |
| Gross profit | | 83,289 | 102,459 |
| Other operating income | | 4,298 | 4,263 |
| Distribution costs | | (14,716) | (17,009) |
| Administrative expenses | | (30,895) | (32,165) |
| Other operating expenses | | <u>(1,045)</u> | <u>(1,172)</u> |
| Profit from operations | 3&4 | 40,931 | 56,376 |
| Finance costs | 5 | <u>(22)</u> | <u>(86)</u> |
| Profit before taxation | | 40,909 | 56,290 |
| Taxation | 6 | <u>(4,470)</u> | <u>(6,973)</u> |
| Profit before minority interests | | 36,439 | 49,317 |
| Minority interests | | <u>332</u> | <u>(830)</u> |
| Net profit for the period | | <u>36,107</u> | <u>50,147</u> |
| Dividend | 7 | <u>56,531</u> | <u>29,953</u> |
| Earnings per share | | | |
| – Basic | 8 | <u>9.6 cents</u> | <u>13.6 cents</u> |
| – Diluted | 8 | <u>9.5 cents</u> | <u>13.3 cents</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2003

| | <i>Notes</i> | 30.6.2003 <i>HK\$'000</i> <i>(unaudited)</i> | 31.12.2002 <i>HK\$'000</i> <i>Restated</i> <i>(audited)</i> |
|--|--------------|---|---|
| Non-current Assets | | | |
| Investment property | 9 | 2,900 | 2,900 |
| Property, plant and equipment | 9 | 247,312 | 247,474 |
| Loan receivable | 10 | 20,982 | – |
| Goodwill | 11 | 2,039 | 2,294 |
| | | <u>273,233</u> | <u>252,668</u> |
| Current Assets | | | |
| Inventories | | 63,177 | 71,592 |
| Debtors, deposits and prepayments | 12 | 126,303 | 149,979 |
| Taxation recoverable | | 11 | 10 |
| Other investment | | – | 3,760 |
| Pledged bank deposits | | 8,220 | 10,895 |
| Bank balances and cash | | 207,660 | 204,769 |
| | | <u>405,371</u> | <u>441,005</u> |
| Current Liabilities | | | |
| Creditors and accrued charges | 13 | 73,812 | 91,610 |
| Taxation payable | | 5,602 | 9,588 |
| Bank borrowing, secured | | – | 1,540 |
| | | <u>79,414</u> | <u>102,738</u> |
| Net Current Assets | | <u>325,957</u> | <u>338,267</u> |
| Total Assets less Current Liabilities | | <u>599,190</u> | <u>590,935</u> |
| Capital and Reserves | | | |
| Share capital | 14 | 37,441 | 37,441 |
| Reserves | | 548,662 | 542,628 |
| | | <u>586,103</u> | <u>580,069</u> |
| Minority Interests | | <u>3,843</u> | <u>3,511</u> |
| Non-current Liability | | | |
| Deferred taxation | | 9,244 | 7,355 |
| | | <u>599,190</u> | <u>590,935</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Special reserve <i>HK\$'000</i> | Goodwill reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---------------------------------------|--|--|--|--------------------------|
| At 1st January, 2002 | | | | | | | |
| – as originally stated | 35,345 | 75,464 | (3,269) | (1,006) | 743 | 400,168 | 507,445 |
| – prior year adjustment (note 2) | – | – | – | – | – | (6,571) | (6,571) |
| – as restated | 35,345 | 75,464 | (3,269) | (1,006) | 743 | 393,597 | 500,874 |
| Issue of shares upon subscription of shares | 1,850 | 29,600 | – | – | – | – | 31,450 |
| Share issue expenses | – | (240) | – | – | – | – | (240) |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement | – | – | – | – | (43) | – | (43) |
| Released upon disposal of subsidiaries | – | – | – | – | (115) | – | (115) |
| Net profit for the period | – | – | – | – | – | 50,147 | 50,147 |
| Dividend paid | – | – | – | – | – | (29,756) | (29,756) |
| At 30th June, 2002 | <u>37,195</u> | <u>104,824</u> | <u>(3,269)</u> | <u>(1,006)</u> | <u>585</u> | <u>413,988</u> | <u>552,317</u> |
| Issue of shares upon exercise of share options | 246 | 1,919 | – | – | – | – | 2,165 |
| Net profit for the period | – | – | – | – | – | 55,540 | 55,540 |
| Dividend paid | – | – | – | – | – | (29,953) | (29,953) |
| At 31st December, 2002 | <u>37,441</u> | <u>106,743</u> | <u>(3,269)</u> | <u>(1,006)</u> | <u>585</u> | <u>439,575</u> | <u>580,069</u> |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement | – | – | – | – | (116) | – | (116) |
| Released upon disposal of a subsidiary | – | – | – | – | (4) | – | (4) |
| Net profit for the period | – | – | – | – | – | 36,107 | 36,107 |
| Dividend paid | – | – | – | – | – | (29,953) | (29,953) |
| At 30th June, 2003 | <u>37,441</u> | <u>106,743</u> | <u>(3,269)</u> | <u>(1,006)</u> | <u>465</u> | <u>445,729</u> | <u>586,103</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

| | Six months ended | |
|--|------------------|----------------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Net cash from operating activities | 71,508 | 70,351 |
| Net cash used in investing activities | (37,124) | (20,117) |
| Net cash (used in) from financing activities | <u>(31,493)</u> | <u>1,454</u> |
| Net increase in cash and cash equivalents | 2,891 | 51,688 |
| Cash and cash equivalents at the beginning of the period | <u>204,769</u> | <u>147,934</u> |
| Cash and cash equivalents at the end of the period | <u>207,660</u> | <u>199,622</u> |
| Analysis of the balance of cash and cash equivalents | | |
| Bank balances and cash | <u>207,660</u> | <u>199,622</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property and other investment.

The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2002 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The retained profits at 1st January, 2002 have been decreased by HK\$6,571,000, which is the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The effect of the change is a decrease in profit in the current period of HK\$1,890,000 (six months ended 30th June, 2002: increase in profit of HK\$76,000). The deferred taxation at 31st December, 2002 have been increased by HK\$6,555,000, which is the cumulative effect of the change in policy on the deferred taxation as at 31st December, 2002.

3. Segment information

Geographical segments

Segment information of the Group by location of customers is presented as below:

| | Six months ended | | | |
|--------------------------------------|-------------------------|------------------|------------------|------------------|
| | 30.6.2003 | 30.6.2003 | 30.6.2002 | 30.6.2002 |
| | Revenue | Results | Revenue | Results |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Europe | 99,046 | 22,269 | 120,148 | 25,741 |
| United States | 93,103 | 17,417 | 110,817 | 25,806 |
| Asia | 37,306 | (409) | 43,139 | 2,436 |
| Other regions | 11,945 | 2,183 | 15,659 | 2,966 |
| | <u>241,400</u> | <u>41,460</u> | <u>289,763</u> | <u>56,949</u> |
| Unallocated corporate expenses | | (2,140) | | (3,207) |
| Interest income | | 984 | | 804 |
| Gain on disposal of other investment | | 46 | | 183 |
| Gain on disposal of subsidiaries | | 557 | | 1,647 |
| Dividend income | | 24 | | – |
| Profit from operations | | <u>40,931</u> | | <u>56,376</u> |

Business segments

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers this as one single business segment.

4. Profit from operations

| | Six months ended | |
|---|------------------|-----------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| Profit from operations has been arrived at after charging: | | |
| Amortisation of goodwill (charged to other operating expenses) | 255 | – |
| Depreciation and amortisation of property, plant and equipment | 22,553 | 22,886 |
| Loss on disposal of property, plant and equipment | <u>231</u> | <u>50</u> |

5. Finance costs

The finance costs represent interest expense on bank borrowings wholly repayable within five years.

6. Taxation

| | Six months ended | |
|---|------------------|--------------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| Current taxation | | |
| Hong Kong Profits Tax | 2,580 | 7,049 |
| Deferred taxation | | |
| Hong Kong Profits Tax | 1,275 | (76) |
| Attributable to change in tax rate in Hong Kong | <u>615</u> | <u>–</u> |
| | <u>4,470</u> | <u>6,973</u> |

The charge represents Hong Kong Profits Tax calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

7. Dividend

| | Six months ended | |
|--|------------------|---------------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| Interim dividend declared in respect of 2003 of 8 cents (2002: 8 cents) per share | 30,150 | 29,953 |
| Special dividend declared in respect of 2003 of 7 cents (2002: nil) per share | <u>26,381</u> | <u>–</u> |
| | <u>56,531</u> | <u>29,953</u> |

The interim dividend and special dividend of HK\$30,150,000 and HK\$26,381,000 respectively in respect of 2003 are calculated by reference to 376,870,000 shares in issue on 10th September, 2003.

On 3rd June, 2003, a dividend of 8 cents per share (2001: 8 cents) was paid to shareholders of the Company as final dividend for 2002.

8. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | Six months ended | |
|--|--------------------|--------------------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| Earnings | | |
| Earnings for the purposes of basic and diluted earnings per share – net profit for the period | <u>36,107</u> | <u>50,147</u> |
| Number of shares | | |
| Weighted average number of shares for the purpose of basic earnings per share | 374,410,000 | 369,394,751 |
| Effect of dilutive potential shares in respect of share options | <u>5,820,211</u> | <u>7,997,632</u> |
| Weighted average number of shares for the purpose of diluted earnings per share | <u>380,230,211</u> | <u>377,392,383</u> |

9. Movements in investment property/property, plant and equipment

| | Investment property <i>HK\$'000</i> | Property, plant and equipment <i>HK\$'000</i> |
|--------------------------------------|---|---|
| COST OR VALUATION | | |
| At 1st January, 2003 | 2,900 | 479,185 |
| Additions | – | 22,660 |
| Disposals | – | (1,791) |
| | <hr/> | <hr/> |
| At 30th June, 2003 | 2,900 | 500,054 |
| | <hr/> | <hr/> |
| DEPRECIATION AND AMORTISATION | | |
| At 1st January, 2003 | – | 231,711 |
| Provided for the period | – | 22,553 |
| Eliminated on disposals | – | (1,522) |
| | <hr/> | <hr/> |
| At 30th June, 2003 | – | 252,742 |
| | <hr/> | <hr/> |
| NET BOOK VALUE | | |
| At 30th June, 2003 | 2,900 | 247,312 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Group's investment property was revalued by the directors at 30th June, 2003. There were no surplus or deficit arising on revaluation of the investment property as at 30th June, 2003.

10. Loan receivable

The amount is secured, interest bearing and will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

11. Movement in goodwill

| | <i>HK\$'000</i> |
|-------------------------|-----------------|
| COST | |
| At 1st January, 2003 | 2,549 |
| Addition | — |
| | <hr/> |
| At 30th June, 2003 | 2,549 |
| | <hr/> |
| AMORTISATION | |
| At 1st January, 2003 | 255 |
| Provided for the period | 255 |
| | <hr/> |
| At 30th June, 2003 | 510 |
| | <hr/> |
| NET BOOK VALUE | |
| At 30th June, 2003 | 2,039 |
| | <hr/> <hr/> |

Goodwill is amortised on a straight-line basis over a period of five years.

12. Debtors, deposits and prepayments

The Group allows an average credit period of 30 days to 90 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$103,800,000 (31.12.2002: HK\$131,302,000), an aging analysis of which at the balance sheet date is as follows:

| | 30.6.2003 | 31.12.2002 |
|---------------------------|------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current | 70,986 | 100,793 |
| 1 to 90 days overdue | 31,003 | 29,452 |
| More than 90 days overdue | 1,811 | 1,057 |
| | <hr/> | <hr/> |
| | 103,800 | 131,302 |
| | <hr/> <hr/> | <hr/> <hr/> |

13. Creditors and accrued charges

Included in the Group's creditors and accrued charges are trade creditors of HK\$45,652,000 (31.12.2002: HK\$56,056,000), an aging analysis of which at the balance sheet date is as follows:

| | 30.6.2003 <i>HK\$'000</i> | 31.12.2002 <i>HK\$'000</i> |
|----------------------------|-------------------------------------|--------------------------------------|
| Current to 90 days overdue | 45,214 | 54,144 |
| More than 90 days overdue | 438 | 1,912 |
| | <u>45,652</u> | <u>56,056</u> |

14. Share capital

| | Number of shares | Amount <i>HK\$'000</i> |
|---|-----------------------------|----------------------------------|
| Shares of HK\$0.10 each | | |
| <i>Authorised:</i> | | |
| At 30th June, 2003 and 31st December, 2002 | <u>1,000,000,000</u> | <u>100,000</u> |
| <i>Issued and fully paid:</i> | | |
| At 30th June, 2003 and 31st December, 2002 | <u>374,410,000</u> | <u>37,441</u> |

15. Disposal of a subsidiary

| | Six months ended | |
|--------------------------------------|------------------|----------------|
| | 30.6.2003 | 30.6.2002 |
| | HK\$'000 | HK\$'000 |
| Net liabilities disposed of | (553) | (1,033) |
| Exchange reserve released | (4) | (115) |
| | <u>(557)</u> | <u>(1,148)</u> |
| Gain on disposal | 557 | 1,647 |
| | <u>–</u> | <u>499</u> |
| Cash consideration | – | 499 |
| Net cash inflow arising on disposal: | | |
| Cash consideration received | – | 499 |
| Bank balances and cash disposed of | – | (54) |
| | <u>–</u> | <u>445</u> |

The subsidiary disposed of during the period did not have any significant impact on the Group's cash flows or operating results.

16. Pledge of assets

At 30th June, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$13,944,000 (31.12.2002: HK\$14,236,000) and bank deposits of approximately HK\$8,220,000 (31.12.2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

17. Contingent liabilities

As 30th June, 2003, the Group had bill discounted with recourse and had given corporate guarantees in favour of a financial institution and a minority shareholder of a subsidiary totalling HK\$14,511,000 (2002: HK\$962,000).

18. Capital commitments

| | 30.6.2003 | 31.12.2002 |
|---|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements | | |
| – buildings under construction | 3,461 | 1,132 |
| – leasehold improvements | 759 | 1,641 |
| – plant and machinery | 2,392 | 6,492 |
| | <u>6,612</u> | <u>9,265</u> |

SUPPLEMENTARY INFORMATION

Dividend

The Directors have resolved to declare an interim dividend of 8 cents per share and a special dividend of 7 cents per share for the six months ended 30th June, 2003 (2002: interim dividend of 8 cents per share). The interim dividend and special dividend will be payable on 8th October, 2003 to shareholders whose names appear on the register of members of the Company on 30th September, 2003.

Closure of Register of Members

The register of members of the Company will be closed from 29th September, 2003 to 30th September, 2003, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 26th September, 2003 in order to qualify for the interim dividend and special dividend mentioned above.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2003.

Share Options

A summary of the movements in share options of the Company during the six months period ended 30th June, 2003 is as follows:

| | Number of share options | | | Percentage of issued share capital |
|----------------------|----------------------------------|--------------------------|--------------------------------|------------------------------------|
| | Outstanding at 1st January, 2003 | Lapsed during the period | Outstanding at 30th June, 2003 | |
| Category: Directors | | | | |
| Ng Hoi Ying, Michael | 2,040,000 | – | 2,040,000 | 0.55% |
| Ng Kim Ying | 600,000 | – | 600,000 | 0.16% |
| Lee Wai Chung | 1,400,000 | – | 1,400,000 | 0.37% |
| | <u>4,040,000</u> | <u>–</u> | <u>4,040,000</u> | <u>1.08%</u> |
| Category: Employees | <u>6,950,000</u> | <u>(1,150,000)</u> | <u>5,800,000</u> | <u>1.55%</u> |
| Total all categories | <u>10,990,000</u> | <u>(1,150,000)</u> | <u>9,840,000</u> | <u>2.63%</u> |

Notes:

1. All share options outstanding at 1st January, 2003 and 30th June, 2003 were granted on 7th July, 2000 under the share option scheme adopted pursuant to an ordinary resolution of the shareholders of the Company passed on 24th October, 1996 (the “Old Scheme”) and exercisable pursuant to a vesting scale between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. The consideration paid by each employee for the options granted was HK\$1.
2. The old scheme was terminated and a new share option scheme (the “New Scheme”) was adopted pursuant to an ordinary resolution of the shareholders of the Company passed in the 2003 Annual General Meeting held on 28th May, 2003.
3. No share options were granted, exercised, cancelled or lapsed pursuant to the New Scheme during the six months ended 30th June, 2003. 37,441,000 shares were available for issue under the New Scheme at 30th June, 2003.

Directors’ Interests in Shares, Underlying Shares and Debentures

At 30th June, 2003, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“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 of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

1. Shares in the Company (Long Position)

| Name of director | Personal interests | Number of shares held | | Total | Percentage of issued share capital |
|----------------------|--------------------|--------------------------------|--------------------------------|-------------|------------------------------------|
| | | Family interests | Other interests | | |
| Ng Hoi Ying, Michael | 816,000 | 36,682,000 <i>(Note a)</i> | 151,000,000 <i>(Note b)</i> | 188,498,000 | 50.35% |
| Hui Pui Woon | 36,682,000 | 151,816,000 <i>(Note c)</i> | – | 188,498,000 | 50.35% |
| Ng Kim Ying | 150,000 | – | 18,500,000 <i>(Note d)</i> | 18,650,000 | 4.98% |
| Lee Wai Chung | 1,000,000 | – | – | 1,000,000 | 0.27% |

Notes:

- (a) The shares were owned by Ms. Hui Pui Woon, the wife of Mr. Ng Hoi Ying, Michael.
- (b) These shares were held by Ratagan International Company Limited (“Ratagan”). The entire issued share capital of Ratagan was held by Newcourt Trustees Limited as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Hoi Ying, Michael and his family members.
- (c) 816,000 shares and 151,000,000 shares were respectively held by Mr. Ng Hoi Ying, Michael, the husband of Ms. Hui Pui Woon, and Ratagan.

- (d) These shares were held by Universal Honour Developments Limited (“Universal Honour”). The entire issued share capital of Universal Honour was held by Newcourt Trustees Limited as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Kim Ying and his family members.

2. *Underlying Shares in the Company (Share Options)*

Details of the share options held by the Directors and chief executive of the Company are shown in the preceding section under the heading “Share Options”.

Save as disclosed above, at 30th June, 2003, none of the Directors or chief executive had any interests or short positions in the 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 for Securities Transactions by Directors of Listed Companies.

Substantial Shareholders’ and Others’ Interests

As at 30th June, 2003, the following parties (other than those disclosed under the heading “Directors’ Interests in Shares, Underlying Shares and Debentures” above) were recorded in the register required to be kept by the Company under Section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

| Name | Number of Shares | Percentage of Issued Share Capital |
|---------------------------------|-----------------------------|---|
| Templeton Asset Management Ltd. | 29,270,000 | 7.82 <i>(Note)</i> |
| Templeton International, Inc. | 29,270,000 | 7.82 <i>(Note)</i> |
| Templeton Worldwide, Inc. | 29,270,000 | 7.82 <i>(Note)</i> |
| Franklin Resources, Inc. | 29,270,000 | 7.82 <i>(Note)</i> |
| David Michael Webb | 19,648,000 | 5.25 |

Note: Templeton Asset Management Ltd. was wholly owned by Templeton International, Inc. which was wholly owned by Templeton Worldwide, Inc.. Templeton Worldwide, Inc. was wholly owned by Franklin Resources, Inc.. Hence, Templeton International, Inc., Templeton Worldwide, Inc. and Franklin Resources, Inc. were deemed to be interested in the same parcel of 29,270,000 shares held by Templeton Asset Management Ltd. under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, at 30th June, 2003, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares or underlying shares of the Company.

Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.